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R. ALEXANDER GLENN
General Counsel

VIA HAND DELIVERY

100417-E1

October 1, 2010

Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Application of Progress Energy Florida, Inc. for authority to issue and sell securities during the twelve months ending December 31, 2011.

Dear Ms. Cole:

Enclosed for filing is one (1) original certified, one copy and a CD-ROM of Progress Energy Florida, Inc.'s Application for authority to issue and sell securities during the twelve months ending December 31, 2011.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Thank you for your assistance in this matter.

COM _____
APA _____
ECR _____
GCL _____
RAD _____
SSC _____
ADM _____
OPC _____
CLK _____

RAG/lms
Enclosures

Sincerely,


R. Alexander Glenn

DOCUMENT NUMBER-DATE

08269 OCT-10

FPSC-COMMISSION CLERK

DOCKET NO. 100417-E1

FLORIDA PUBLIC SERVICE COMMISSION
TALLAHASSEE, FLORIDA

APPLICATION OF
FLORIDA POWER CORPORATION D/B/A
PROGRESS ENERGY FLORIDA, INC.
FOR AUTHORITY TO ISSUE AND SELL
SECURITIES DURING THE TWELVE MONTHS ENDING DECEMBER 31, 2011
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
General Counsel
Progress Energy Florida, Inc.
299 1st Avenue N., Suite 151
St. Petersburg, FL 33701

DOCUMENT NUMBER-DATE
08269 OCT-19
FPSC-COMMISSION CLERK

Dated: September 27, 2010

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION OF FLORIDA
POWER CORPORATION D/B/A
PROGRESS ENERGY FLORIDA,
INC. FOR AUTHORITY TO ISSUE
AND SELL SECURITIES DURING
THE TWELVE MONTHS ENDING
DECEMBER 31, 2011 PURSUANT
TO SECTION 366.04, FLORIDA
STATUTES, AND CHAPTER 25-8,
FLORIDA ADMINISTRATIVE CODE.

The Applicant, Florida Power Corporation d/b/a Progress Energy Florida, Inc., (herein called the "Company"), respectfully requests authority from the Florida Public Service Commission (herein called the "Commission"), to issue, sell or otherwise incur during 2011 up to \$1.0 billion of any combination of equity securities and long-term debt securities and other long-term obligations (exclusive of bank loans issued under the Company's long-term credit facilities as mentioned below). Additionally, the Company requests authority to issue, sell or otherwise incur during 2011 and 2012 up to \$1.0 billion outstanding at any time of short-term debt securities and other obligations, 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 not more than five percent of the par value of the Company's other outstanding securities.

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 described 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.
299 1st Avenue N., Suite 151
St. Petersburg, FL 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 (the “Articles of Incorporation”), 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-El) 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
General Counsel
Progress Energy Florida, Inc.
299 1st Avenue N., Suite 151
St. Petersburg, FL 33701

(4) (a) 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.

(b) 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 issued or otherwise disposed of at any time, subject to limitations imposed by law and in the Articles of Incorporation.

(c) 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 The Bank of New York Mellon (formerly JPMorgan Chase Bank, N.A.) 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.

(d) 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 section (10) hereof.

(e) 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.

(a)(1) The kind and the nature of the securities that the Company seeks authority to issue and sell during 2011 (and 2012 with respect to short-term debt securities and obligations) are equity securities and short-term and long-term debt securities and other obligations, including, but not limited to, borrowings from banks which are participants in credit facilities the Company may establish from time to time, uncommitted bank facilities and affiliate loans which are available through Progress Energy's utility money pool facility. The Company also seeks authority to enter into interest rate derivative contracts to remove financial risk associated with its existing and future debt obligations.

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, securitization of storm cost and other receivables 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, or 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,

or bond anticipation notes. 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 may 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, retire or redeem 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.

(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 facility is a \$450 million five-year revolving credit agreement with a group of banks. Borrowings under the facility are available for general corporate purposes, including support of the Company's commercial paper program. The current five-year facility will expire on March 28, 2011. We expect to terminate the current credit facility and simultaneously enter a new \$750 million three-year revolving credit agreement with a larger group of banks in October 2010. Borrowings under the new \$750 million facility will also be available for general corporate purposes, including support of the Company's commercial paper program.

(b) The maximum principal amount of short-term securities and obligations proposed to be issued, sold, or otherwise incurred during 2011 and 2012 is \$1.0 billion outstanding at any time, including commercial paper, bank loans or money pool 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 (exclusive of bank loans issued under the Company's long-term credit facilities as mentioned above) proposed to be issued, sold, or otherwise incurred during 2011 is \$1.0 billion.

In connection with this Application, the Company confirms that the capital raised pursuant to this Application will be used in connection with the activities of the Company and not the unregulated activities of its affiliates.

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 2011 calendar year to report any securities issued during that year.

(c) On September 30, 2010, the estimate of the potential range of interest rates for securities proposed to be issued by the Company were as follows:

- | | | |
|----|---|---------------|
| 1. | 10-year to 30-year BBB+ rated senior unsecured debt: | 4.50% – 7.00% |
| 2. | 10-year to 30-year A- rated first mortgage bonds: | 4.00% – 6.50% |
| 3. | Second-tier 30-day to 60-day commercial paper sold through dealers (on a bond equivalent basis)*: | 0.50% – 2.00% |

* Prior to fees.

The actual rates to be paid by the Company during 2011 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 2011 pursuant to the Company's construction program, to repay maturing long-term debt or short-term unsecured debt, to refund, retire or redeem existing obligations, or for other corporate purposes.

A more detailed statement of the Projected Sources and Uses of Funds during 2011 is included as Exhibit B(1) attached hereto. The Company's construction program is developed from its long-range plan to determine needed construction faculties. While the final

2011 Construction Budget is not yet available, the Company's most recently approved construction expenditures forecast excluding Allowance for Funds Used During Construction ("AFUDC") for 2011 is approximately \$0.7 billion. A detailed listing of this 2011 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 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, General Counsel for the Company, or his duly appointed successor, will pass upon the legality of the securities involved herein. His office address is:

Progress Energy Florida, Inc.
299 1st Avenue N., Suite 151
St. Petersburg, FL 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 United States Securities and Exchange Commission ("SEC"), 100 F Street, NE, Washington, D.C. 20549. A copy of each Registration Statement that has been or will be filed with the SEC will be included in 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 or process or other documents with applicable state securities commissions, including in particular the Florida Division of Securities, 200 East Gaines Street, Tallahassee, FL 32399; the Nevada Department of State, Securities Division, 555 East Washington Avenue, Suite 5200, Las Vegas, NV 89101; the New York State Office of the Attorney General, Investor Protection Bureau, 120 Broadway, 23rd Floor, New York, NY 10271; and the Oregon Department of Consumer & Business Services, Division of Finance and Corporate Securities, 350 Winter St. NE, Room 410, Salem, OR 97301.

(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 of 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"). On February 8, 2006, the Act was repealed, and the Public Utility Holding Company Act of 2005 (the "2005 Act") was enacted. 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 2005 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, 2009, and filed with the SEC in file no. 1-15929 on February 26, 2010. |
| 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, 2010, and filed with the SEC in file no. 1-15929 on August 6, 2010. |
| Exhibit B(1) | Projected Sources and Uses of Funds Statement for 2011. |
| Exhibit B(2) | Preliminary Construction Expenditures for 2011. |
| Exhibit C | Capital Stock and Long-Term Debt of the Company as of September 30, 2010. |

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, 2011 and, more specifically, to order that:

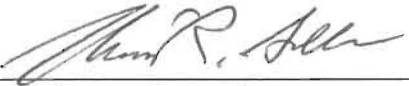
- (a) The request of Progress Energy Florida, Inc. to issue and sell securities during the twelve months ending December 31, 2011, pursuant to Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code (the "Application"), is granted.

- (b) Progress Energy Florida, Inc. is authorized to issue, sell, or otherwise incur during 2011 up to \$1.0 billion of any combination of equity securities and long-term debt securities and other long-term obligations (exclusive of bank loans issued under the Company's long-term credit facilities as mentioned above). Additionally, the Company requests authority to issue, sell or otherwise incur during 2011 and 2012 up to \$1.0 billion outstanding at any time of short-term debt securities and other obligations, 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 not more than five percent of the par value of the Company's other outstanding securities.
- (c) The kind and nature of the securities that Progress Energy Florida, Inc. is authorized to issue during 2011 (and 2012 with respect to short-term debt securities and obligations) are equity securities and short-term and long-term debt securities and other 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 2011 calendar year.

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Respectfully submitted this
27th day of September, 2010

PROGRESS ENERGY FLORIDA, INC.

By: 
Thomas R. Sullivan
Treasurer

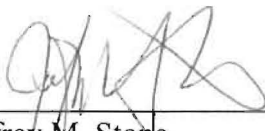
*[Signature page for Progress Energy Florida, Inc.'s 2011 Application for
Authority to Issue and Sell Securities]*

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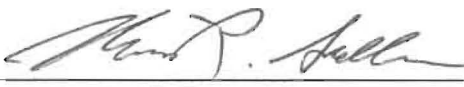
STATE OF NORTH CAROLINA)
)
COUNTY OF WAKE)

CERTIFICATION OF APPLICATION AND EXHIBITS

Each of the undersigned, Jeffrey M. Stone and Thomas R. Sullivan, being first duly sworn, deposes and says that he is the Chief Accounting Officer and the Treasurer, respectively, of Progress Energy Florida, Inc., the Applicant herein; that he 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 knowledge and belief.



Jeffrey M. Stone
Chief Accounting Officer

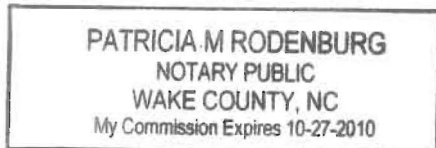


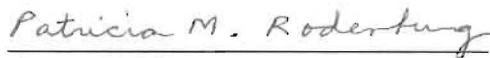
Thomas R. Sullivan
Treasurer

STATE OF NORTH CAROLINA)
)
COUNTY OF WAKE)

The foregoing instrument was acknowledged before me this 27th day of September, 2010, by Jeffrey M. Stone and Thomas R. Sullivan, who are personally known to me and who did take an oath.

[SEAL]





Notary Public

PATRICIA M. RODENBURG

Printed Name

My Commission Expires:

OCTOBER 27, 2010

EXHIBIT A (6)(i)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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Each of the preceding combined notes to the financial statements of the Progress Registrants are applicable to Progress Energy, Inc. but not to each of PEC and PEF. The following table sets forth which notes are applicable to each of PEC and PEF.

<u>Registrant</u>	<u>Applicable Notes</u>
PEC	1, 2, 4 through 7, 9 through 14, 16 through 18, 20 through 22 and 24
PEF	1, 2, 4 through 7, 9 through 14, 16 through 18, 20 through 22 and 24

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF PROGRESS ENERGY, INC.:

We have audited the accompanying consolidated balance sheets of Progress Energy, Inc. and its subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, comprehensive income, changes in total equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Progress Energy, Inc. and its subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 26, 2010, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina

February 26, 2010

PROGRESS ENERGY, INC.

CONSOLIDATED STATEMENTS of INCOME

(in millions except per share data)

Years ended December 31

	2009	2008	2007
Operating revenues	\$9,885	\$9,167	\$9,153
Operating expenses			
Fuel used in electric generation	3,752	3,021	3,145
Purchased power	911	1,299	1,184
Operation and maintenance	1,894	1,820	1,842
Depreciation, amortization and accretion	986	839	905
Taxes other than on income	557	508	501
Other	13	(3)	30
Total operating expenses	8,113	7,484	7,607
Operating income	1,772	1,683	1,546
Other income (expense)			
Interest income	14	24	34
Allowance for equity funds used during construction	124	122	51
Other, net	6	(17)	(7)
Total other income, net	144	129	78
Interest charges			
Interest charges	718	679	605
Allowance for borrowed funds used during construction	(39)	(40)	(17)
Total interest charges, net	679	639	588
Income from continuing operations before income tax	1,237	1,173	1,036
Income tax expense	397	395	334
Income from continuing operations	840	778	702
Discontinued operations, net of tax	(79)	58	(206)
Net income	761	836	496
Net (income) loss attributable to noncontrolling interests, net of tax	(4)	(6)	8
Net income attributable to controlling interests	\$757	\$830	\$504
Average common shares outstanding – basic	279	262	257
Basic and diluted earnings per common share			
Income from continuing operations attributable to controlling interests, net of tax	\$2.99	\$2.95	\$2.70
Discontinued operations attributable to controlling interests, net of tax	(0.28)	0.22	(0.74)
Net income attributable to controlling interests	\$2.71	\$3.17	\$1.96
Dividends declared per common share	\$2.480	\$2.465	\$2.445
Amounts attributable to controlling interests			
Income from continuing operations attributable to controlling interests, net of tax	\$836	\$773	\$693
Discontinued operations attributable to controlling interests, net of tax	(79)	57	(189)
Net income attributable to controlling interests	\$757	\$830	\$504

See Notes to Progress Energy, Inc. Consolidated Financial Statements.

PROGRESS ENERGY, INC.
CONSOLIDATED BALANCE SHEETS

(in millions)

December 31	2009	2008
ASSETS		
Utility plant		
Utility plant in service	\$28,918	\$26,326
Accumulated depreciation	(11,576)	(11,298)
Utility plant in service, net	17,342	15,028
Held for future use	47	38
Construction work in progress	1,790	2,745
Nuclear fuel, net of amortization	554	482
Total utility plant, net	19,733	18,293
Current assets		
Cash and cash equivalents	725	180
Receivables, net	800	867
Inventory	1,325	1,239
Regulatory assets	142	533
Derivative collateral posted	146	353
Income taxes receivable	145	194
Prepayments and other current assets	248	154
Total current assets	3,531	3,520
Deferred debits and other assets		
Regulatory assets	2,179	2,567
Nuclear decommissioning trust funds	1,367	1,089
Miscellaneous other property and investments	438	446
Goodwill	3,655	3,655
Other assets and deferred debits	333	303
Total deferred debits and other assets	7,972	8,060
Total assets	\$31,236	\$29,873
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 500 million shares authorized, 281 million and 264 million shares issued and outstanding, respectively	\$6,873	\$6,206
Unearned ESOP shares (1 million shares)	(12)	(25)
Accumulated other comprehensive loss	(87)	(116)
Retained earnings	2,675	2,622
Total common stock equity	9,449	8,687
Noncontrolling interests	6	6
Total equity	9,455	8,693
Preferred stock of subsidiaries	93	93
Long-term debt, affiliate	272	272
Long-term debt, net	11,779	10,387
Total capitalization	21,599	19,445
Current liabilities		
Current portion of long-term debt	406	--
Short-term debt	140	1,050
Accounts payable	835	912
Interest accrued	206	167
Dividends declared	175	164
Customer deposits	300	282
Derivative liabilities	190	493
Accrued compensation and other benefits	167	193
Other current liabilities	239	225
Total current liabilities	2,658	3,486
Deferred credits and other liabilities		
Noncurrent income tax liabilities	1,196	818
Accumulated deferred investment tax credits	117	127
Regulatory liabilities	2,510	2,181
Asset retirement obligations	1,170	1,471
Accrued pension and other benefits	1,339	1,594
Capital lease obligations	221	231
Derivative liabilities	240	269
Other liabilities and deferred credits	186	251
Total deferred credits and other liabilities	6,979	6,942
Commitments and contingencies (Notes 21 and 22)		
Total capitalization and liabilities	\$31,236	\$29,873

See Notes to Progress Energy, Inc. Consolidated Financial Statements.

PROGRESS ENERGY, INC.

CONSOLIDATED STATEMENTS of CASH FLOWS

(in millions)

Years ended December 31	2009	2008	2007
Operating activities			
Net income	\$761	\$836	\$496
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization and accretion	1,135	957	1,026
Deferred income taxes and investment tax credits, net	220	411	177
Deferred fuel cost (credit)	290	(333)	117
Deferred income	—	—	(128)
Allowance for equity funds used during construction	(124)	(122)	(51)
Loss (gain) on sales of assets	2	(75)	(29)
Other adjustments to net income	269	135	212
Cash provided (used) by changes in operating assets and liabilities			
Receivables	26	233	(186)
Inventory	(99)	(237)	(11)
Derivative collateral posted	200	(340)	55
Prepayments and other current assets	3	7	35
Income taxes, net	(14)	(169)	(275)
Accounts payable	(26)	77	(40)
Other current liabilities	(42)	(103)	81
Other assets and deferred debits	11	(44)	(198)
Accrued pension and other benefits	(285)	(39)	(91)
Other liabilities and deferred credits	(56)	24	62
Net cash provided by operating activities	2,271	1,218	1,252
Investing activities			
Gross property additions	(2,295)	(2,333)	(1,973)
Nuclear fuel additions	(200)	(222)	(228)
Proceeds from sales of discontinued operations and other assets, net of cash divested	1	72	675
Purchases of available-for-sale securities and other investments	(2,350)	(1,590)	(1,413)
Proceeds from available-for-sale securities and other investments	2,314	1,534	1,452
Other investing activities	(2)	(2)	30
Net cash used by investing activities	(2,532)	(2,541)	(1,457)
Financing activities			
Issuance of common stock	623	132	151
Dividends paid on common stock	(693)	(642)	(627)
Payments of short-term debt with original maturities greater than 90 days	(29)	(176)	—
Proceeds from issuance of short-term debt with original maturities greater than 90 days	—	29	176
Net (decrease) increase in short-term debt	(981)	1,096	25
Proceeds from issuance of long-term debt, net	2,278	1,797	739
Retirement of long-term debt	(400)	(877)	(324)
Cash distributions to noncontrolling interests	(6)	(85)	(10)
Other financing activities	14	(26)	65
Net cash provided by financing activities	806	1,248	195
Net increase (decrease) in cash and cash equivalents	545	(75)	(10)
Cash and cash equivalents at beginning of year	180	255	265
Cash and cash equivalents at end of year	\$725	\$180	\$255
Supplemental disclosures			
Cash paid during the year			
Interest, net of amount capitalized	\$701	\$612	\$585
Income taxes, net of refunds	87	152	176
Significant noncash transactions			
Capital lease obligation incurred	—	—	182
Accrued property additions	252	334	329
Asset retirement obligation additions and estimate revisions	(384)	14	—

See Notes to Progress Energy, Inc. Consolidated Financial Statements.

PROGRESS ENERGY, INC.

CONSOLIDATED STATEMENTS of CHANGES in TOTAL EQUITY

(in millions except per share data)	Common Stock Outstanding		Unearned ESOP Shares	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Noncontrolling Interests	Total Equity
	Shares	Amount					
Balance, December 31, 2006	256	\$5,791	\$(50)	\$(49)	\$2,567	\$10	\$8,269
Net income		—	—	—	504	(8)	496
Other comprehensive income		—	—	15	—	—	15
Adjustment to initially apply FASB Interpretation No. 48		—	—	—	(2)	—	(2)
Issuance of shares	4	46	—	—	—	—	46
Stock options exercised		105	—	—	—	—	105
Allocation of ESOP shares		15	13	—	—	—	28
Stock-based compensation expense		71	—	—	—	—	71
Dividends (\$2.445 per share)		—	—	—	(631)	—	(631)
Sale of subsidiary shares to noncontrolling interests		—	—	—	—	37	37
Distributions to noncontrolling interests		—	—	—	—	(10)	(10)
Contributions from noncontrolling interests		—	—	—	—	52	52
Other transactions		—	—	—	—	3	3
Balance, December 31, 2007	260	6,028	(37)	(34)	2,438	84	8,479
Net income		—	—	—	830	6	836
Other comprehensive loss		—	—	(82)	—	—	(82)
Issuance of shares	4	131	—	—	—	—	131
Stock options exercised		1	—	—	—	—	1
Allocation of ESOP shares		13	12	—	—	—	25
Stock-based compensation expense		33	—	—	—	—	33
Dividends (\$2.465 per share)		—	—	—	(646)	—	(646)
Distributions to noncontrolling interests		—	—	—	—	(85)	(85)
Contributions from noncontrolling interests		—	—	—	—	2	2
Other transactions		—	—	—	—	(1)	(1)
Balance, December 31, 2008	264	6,206	(25)	(116)	2,622	6	8,693
Net income^(a)		—	—	—	757	—	757
Other comprehensive income		—	—	29	—	—	29
Issuance of shares	17	623	—	—	—	—	623
Allocation of ESOP shares		8	13	—	—	—	21
Stock-based compensation expense		36	—	—	—	—	36
Dividends (\$2.480 per share)		—	—	—	(704)	—	(704)
Distributions to noncontrolling interests		—	—	—	—	(1)	(1)
Other transactions		—	—	—	—	1	1
Balance, December 31, 2009	281	\$6,873	\$(12)	\$(87)	\$2,675	\$6	\$9,455

^(a) Consolidated net income of \$761 million includes \$4 million attributable to preferred shareholders of subsidiaries, which is not a component of total equity and is excluded from the table above.

See Notes to Progress Energy, Inc. Consolidated Financial Statements.

PROGRESS ENERGY, INC.

CONSOLIDATED STATEMENTS of COMPREHENSIVE INCOME

(in millions)

Years ended December 31	2009	2008	2007
Net income	\$761	\$836	\$496
Other comprehensive income (loss)			
Reclassification adjustments included in net income			
Change in cash flow hedges (net of tax expense of \$4, \$2 and \$3, respectively)	6	3	4
Change in unrecognized items for pension and other postretirement benefits (net of tax expense of \$3, \$1 and \$1, respectively)	4	1	2
Net unrealized gains (losses) on cash flow hedges (net of tax (expense) benefit of \$(10), \$24 and \$8, respectively)	16	(37)	(13)
Net unrecognized items on pension and other postretirement benefits (net of tax (expense) benefit of \$(1), \$29 and \$(16), respectively)	2	(49)	23
Other (net of tax benefit of \$-, \$1 and \$3, respectively)	1	—	(1)
Other comprehensive income (loss)	29	(82)	15
Comprehensive income	790	754	511
Comprehensive (income) loss attributable to noncontrolling interests, net of tax	(4)	(6)	8
Comprehensive income attributable to controlling interests	\$786	\$748	\$519

See Notes to Progress Energy, Inc. Consolidated Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF CAROLINA POWER & LIGHT COMPANY
d/b/a PROGRESS ENERGY CAROLINAS, INC.:

We have audited the accompanying consolidated balance sheets of Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. and its subsidiaries (PEC) as of December 31, 2009 and 2008, and the related consolidated statements of income, comprehensive income, changes in total equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. PEC is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PEC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Progress Energy Carolinas, Inc. and its subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina

February 26, 2010

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.
CONSOLIDATED STATEMENTS of INCOME

(in millions)

Years ended December 31	2009	2008	2007
Operating revenues	\$4,627	\$4,429	\$4,385
Operating expenses			
Fuel used in electric generation	1,680	1,346	1,381
Purchased power	229	346	302
Operation and maintenance	1,072	1,030	1,024
Depreciation, amortization and accretion	470	518	519
Taxes other than on income	210	198	192
Other	—	(5)	(2)
Total operating expenses	3,661	3,433	3,416
Operating income	966	996	969
Other income (expense)			
Interest income	5	12	21
Allowance for equity funds used during construction	33	27	10
Other, net	(18)	4	6
Total other income, net	20	43	37
Interest charges			
Interest charges	207	219	215
Allowance for borrowed funds used during construction	(12)	(12)	(5)
Total interest charges, net	195	207	210
Income before income tax	791	832	796
Income tax expense	277	298	295
Net income	514	534	501
Net loss attributable to noncontrolling interests, net of tax	2	—	—
Net income attributable to controlling interests	516	534	501
Preferred stock dividend requirement	(3)	(3)	(3)
Net income available to parent	\$513	\$531	\$498

See Notes to Progress Energy Carolinas, Inc. Consolidated Financial Statements.

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.

CONSOLIDATED BALANCE SHEETS

(in millions)

December 31	2009	2008
ASSETS		
Utility plant		
Utility plant in service	\$16,297	\$15,698
Accumulated depreciation	(7,520)	(7,352)
Utility plant in service, net	8,777	8,346
Held for future use	11	3
Construction work in progress	702	660
Nuclear fuel, net of amortization	396	376
Total utility plant, net	9,886	9,385
Current assets		
Cash and cash equivalents	35	18
Receivables, net	442	502
Receivables from affiliated companies	33	29
Notes receivable from affiliated companies	204	55
Inventory	677	633
Deferred fuel cost	88	207
Income taxes receivable	38	98
Prepayments and other current assets	61	28
Total current assets	1,578	1,570
Deferred debits and other assets		
Regulatory assets	873	1,243
Nuclear decommissioning trust funds	871	672
Miscellaneous other property and investments	199	197
Other assets and deferred debits	95	98
Total deferred debits and other assets	2,038	2,210
Total assets	\$13,502	\$13,165
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 200 million shares authorized, 160 million shares issued and outstanding	\$2,108	\$2,083
Unearned ESOP common stock	(12)	(25)
Accumulated other comprehensive loss	(27)	(35)
Retained earnings	2,588	2,278
Total common stock equity	4,657	4,301
Noncontrolling interests	3	4
Total equity	4,660	4,305
Preferred stock	59	59
Long-term debt, net	3,703	3,509
Total capitalization	8,422	7,873
Current liabilities		
Current portion of long-term debt	6	—
Short-term debt	—	110
Accounts payable	355	377
Payables to affiliated companies	72	82
Interest accrued	70	59
Customer deposits	95	82
Derivative liabilities	29	82
Accrued compensation and other benefits	86	99
Other current liabilities	50	74
Total current liabilities	763	965
Deferred credits and other liabilities		
Noncurrent income tax liabilities	1,258	1,111
Accumulated deferred investment tax credits	110	115
Regulatory liabilities	1,293	987
Asset retirement obligations	801	1,122
Accrued pension and other benefits	708	856
Other liabilities and deferred credits	147	136
Total deferred credits and other liabilities	4,317	4,327
Commitments and contingencies (Notes 21 and 22)		
Total capitalization and liabilities	\$13,502	\$13,165

See Notes to Progress Energy Carolinas, Inc. Consolidated Financial Statements.

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.

CONSOLIDATED STATEMENTS of CASH FLOWS

(in millions)			
Years ended December 31	2009	2008	2007
Operating activities			
Net income	\$514	\$534	\$501
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization and accretion	585	616	608
Deferred income taxes and investment tax credits, net	64	204	41
Deferred fuel cost (credit)	187	(71)	48
Allowance for equity funds used during construction	(33)	(27)	(10)
Other adjustments to net income	132	45	(37)
Cash provided (used) by changes in operating assets and liabilities			
Receivables	42	(61)	(16)
Receivables from affiliated companies	(4)	13	(15)
Inventory	(56)	(119)	(10)
Prepayments and other current assets	11	4	(17)
Income taxes, net	50	(116)	(37)
Accounts payable	(18)	42	33
Payables to affiliated companies	(10)	11	(37)
Other current liabilities	(19)	34	(29)
Other assets and deferred debits	17	7	(28)
Accrued pension and other benefits	(181)	(31)	(49)
Other liabilities and deferred credits	2	(24)	72
Net cash provided by operating activities	1,283	1,061	1,018
Investing activities			
Gross property additions	(839)	(760)	(757)
Nuclear fuel additions	(122)	(179)	(184)
Purchases of available-for-sale securities and other investments	(696)	(682)	(603)
Proceeds from available-for-sale securities and other investments	642	626	622
Changes in advances to affiliated companies	(149)	(55)	24
Other investing activities	1	8	6
Net cash used by investing activities	(1,163)	(1,042)	(892)
Financing activities			
Dividends paid on preferred stock	(3)	(3)	(3)
Dividends paid to parent	(200)	—	(143)
Net (decrease) increase in short-term debt	(110)	110	—
Proceeds from issuance of long-term debt, net	595	322	—
Retirement of long-term debt	(400)	(300)	(200)
Changes in advances from affiliated companies	—	(154)	154
Contributions from parent	15	15	21
Other financing activities	—	(16)	(1)
Net cash used by financing activities	(103)	(26)	(172)
Net increase (decrease) in cash and cash equivalents	17	(7)	(46)
Cash and cash equivalents at beginning of year	18	25	71
Cash and cash equivalents at end of year	\$35	\$18	\$25
Supplemental disclosures			
Cash paid during the year			
Interest, net of amount capitalized	\$171	\$193	\$210
Income taxes, net of refunds	144	211	291
Significant noncash transactions			
Accrued property additions	91	99	87
Asset retirement obligation additions and estimate revisions	(386)	(3)	—

See Notes to Progress Energy Carolinas, Inc. Consolidated Financial Statements.

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.

CONSOLIDATED STATEMENTS of CHANGES in TOTAL EQUITY

(in millions)	Common Stock Outstanding		Unearned ESOP Common Stock	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Noncontrolling interests	Total Equity
	Shares	Amount					
Balance, December 31, 2006	160	\$2,010	\$(50)	\$(1)	\$1,404	\$4	\$3,367
Net income		—	—	—	501	—	501
Other comprehensive loss		—	—	(9)	—	—	(9)
Adjustment to initially apply FASB Interpretation No. 48		—	—	—	(6)	—	(6)
Stock-based compensation expense		24	—	—	—	—	24
Allocation of ESOP shares		20	13	—	—	—	33
Preferred stock dividends at stated rates		—	—	—	(3)	—	(3)
Dividends paid to parent		—	—	—	(143)	—	(143)
Tax benefit dividend		—	—	—	(8)	—	(8)
Balance, December 31, 2007	160	2,054	(37)	(10)	1,745	4	3,756
Net income		—	—	—	534	—	534
Other comprehensive loss		—	—	(25)	—	—	(25)
Stock-based compensation expense		13	—	—	—	—	13
Allocation of ESOP shares		16	12	—	—	—	28
Preferred stock dividends at stated rates		—	—	—	(3)	—	(3)
Tax benefit dividend		—	—	—	2	—	2
Balance, December 31, 2008	160	2,083	(25)	(35)	2,278	4	4,305
Net income		—	—	—	516	(2)	514
Other comprehensive income		—	—	8	—	—	8
Stock-based compensation expense		15	—	—	—	—	15
Allocation of ESOP shares		10	13	—	—	—	23
Dividends paid to parent		—	—	—	(200)	—	(200)
Preferred stock dividends at stated rates		—	—	—	(3)	—	(3)
Tax benefit dividend		—	—	—	(3)	—	(3)
Other transactions		—	—	—	—	1	1
Balance, December 31, 2009	160	\$2,108	\$(12)	\$(27)	\$2,588	\$3	\$4,660

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.

CONSOLIDATED STATEMENTS of COMPREHENSIVE INCOME

(in millions)	2009	2008	2007
Years ended December 31			
Net income	\$514	\$534	\$501
Other comprehensive income (loss)			
Reclassification adjustments included in net income			
Change in cash flow hedges (net of tax expense of \$2 and \$1, respectively)	3	1	—
Net unrealized gains (losses) on cash flow hedges (net of tax (expense) benefit of \$(3), \$17 and \$4, respectively)	5	(26)	(5)
Other (net of tax benefit of \$1)	—	—	(4)
Other comprehensive income (loss)	8	(25)	(9)
Comprehensive income	522	509	492
Comprehensive loss attributable to noncontrolling interests, net of tax	2	—	—
Comprehensive income attributable to controlling interests	\$524	\$509	\$492

See Notes to Progress Energy Carolinas, Inc. Consolidated Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDER OF FLORIDA POWER CORPORATION d/b/a
PROGRESS ENERGY FLORIDA, INC.:

We have audited the accompanying balance sheets of Florida Power Corporation d/b/a Progress Energy Florida, Inc. (PEF) as of December 31, 2009 and 2008, and the related statements of income, comprehensive income, changes in common stock equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. PEF is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PEF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 PEF as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina

February 26, 2010

FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.

STATEMENTS of INCOME

(in millions)

Years ended December 31	2009	2008	2007
Operating revenues	\$5,251	\$4,731	\$4,749
Operating expenses			
Fuel used in electric generation	2,072	1,675	1,764
Purchased power	682	953	882
Operation and maintenance	839	813	834
Depreciation, amortization and accretion	502	306	366
Taxes other than on income	347	309	309
Other	7	(5)	8
Total operating expenses	4,449	4,051	4,163
Operating income	802	680	586
Other income (expense)			
Interest income	4	9	9
Allowance for equity funds used during construction	91	95	41
Other, net	5	(10)	(2)
Total other income, net	100	94	48
Interest charges			
Interest charges	258	236	185
Allowance for borrowed funds used during construction	(27)	(28)	(12)
Total interest charges, net	231	208	173
Income before income tax	671	566	461
Income tax expense	209	181	144
Net income	462	385	317
Preferred stock dividend requirement	(2)	(2)	(2)
Net income available to parent	\$460	\$383	\$315

See Notes to Progress Energy Florida, Inc. Financial Statements.

FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.

BALANCE SHEETS

(in millions)

December 31	2009	2008
ASSETS		
Utility plant		
Utility plant in service	\$12,438	\$10,449
Accumulated depreciation	(3,987)	(3,885)
Utility plant in service, net	8,451	6,564
Held for future use	36	35
Construction work in progress	1,088	2,085
Nuclear fuel, net of amortization	158	106
Total utility plant, net	9,733	8,790
Current assets		
Cash and cash equivalents	17	19
Receivables, net	356	362
Receivables from affiliated companies	8	15
Inventory	648	606
Regulatory assets	54	326
Derivative collateral posted	139	335
Deferred income taxes	115	74
Prepayments and other current assets	80	65
Total current assets	1,417	1,802
Deferred debits and other assets		
Regulatory assets	1,307	1,324
Nuclear decommissioning trust funds	496	417
Miscellaneous other property and investments	42	37
Other assets and deferred debits	105	101
Total deferred debits and other assets	1,950	1,879
Total assets	\$13,100	\$12,471
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 60 million shares authorized, 100 shares issued and outstanding	\$1,744	\$1,116
Accumulated other comprehensive income (loss)	3	(1)
Retained earnings	2,743	2,284
Total common stock equity	4,490	3,399
Preferred stock	34	34
Long-term debt, net	3,883	4,182
Total capitalization	8,407	7,615
Current liabilities		
Current portion of long-term debt	300	—
Short-term debt	—	371
Notes payable to affiliated companies	221	72
Accounts payable	451	514
Payables to affiliated companies	62	55
Interest accrued	72	51
Customer deposits	205	200
Derivative liabilities	161	380
Accrued compensation and other benefits	53	65
Other current liabilities	89	63
Total current liabilities	1,614	1,771
Deferred credits and other liabilities		
Noncurrent income tax liabilities	767	634
Accumulated deferred investment tax credits	7	12
Regulatory liabilities	1,103	1,076
Asset retirement obligations	369	349
Accrued pension and other benefits	395	494
Capital lease obligations	208	216
Derivative liabilities	174	209
Other liabilities and deferred credits	56	95
Total deferred credits and other liabilities	3,079	3,085
Commitments and contingencies (Notes 21 and 22)		
Total capitalization and liabilities	\$13,100	\$12,471

See Notes to Progress Energy Florida, Inc. Financial Statements.

FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.

STATEMENTS of CASH FLOWS

(in millions)

Years ended December 31	2009	2008	2007
Operating activities			
Net income	\$462	\$385	\$317
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization and accretion	527	320	385
Deferred income taxes and investment tax credits, net	64	130	(44)
Deferred fuel cost (credit)	103	(262)	69
Allowance for equity funds used during construction	(91)	(95)	(41)
Other adjustments to net income	116	40	77
Cash (used) provided by changes in operating assets and liabilities			
Receivables	(15)	(26)	(8)
Receivables from affiliated companies	7	(7)	3
Inventory	(43)	(122)	(35)
Derivative collateral posted	190	(323)	47
Prepayments and other current assets	11	(15)	25
Income taxes, net	(75)	—	3
Accounts payable	(11)	48	43
Payables to affiliated companies	7	(32)	(29)
Other current liabilities	1	(10)	35
Other assets and deferred debits	4	(8)	(44)
Accrued pension and other benefits	(83)	(24)	(20)
Other liabilities and deferred credits	(37)	52	16
Net cash provided by operating activities	1,137	51	799
Investing activities			
Gross property additions	(1,449)	(1,552)	(1,214)
Nuclear fuel additions	(78)	(43)	(44)
Purchases of available-for-sale securities and other investments	(1,540)	(782)	(640)
Proceeds from available-for-sale securities and other investments	1,545	784	640
Changes in advances to affiliated companies	—	149	(149)
Proceeds from sales of assets to affiliated companies	—	12	—
Other investing activities	(6)	(7)	5
Net cash used by investing activities	(1,528)	(1,439)	(1,402)
Financing activities			
Dividends paid on preferred stock	(2)	(2)	(2)
Net (decrease) increase in short-term debt	(371)	371	—
Proceeds from issuance of long-term debt, net	—	1,475	739
Retirement of long-term debt	—	(532)	(89)
Changes in advances from affiliated companies	149	72	(47)
Contributions from parent	620	—	—
Other financing activities	(7)	—	2
Net cash provided by financing activities	389	1,384	603
Net decrease in cash and cash equivalents	(2)	(4)	—
Cash and cash equivalents at beginning of year	19	23	23
Cash and cash equivalents at end of year	\$17	\$19	\$23
Supplemental disclosures			
Cash paid during the year			
Interest, net of amount capitalized	\$228	\$205	\$149
Income taxes, net of refunds	184	52	184
Significant noncash transactions			
Capital lease obligation incurred	—	—	182
Accrued property additions	156	231	238

See Notes to Progress Energy Florida, Inc. Financial Statements.

FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.

STATEMENTS of CHANGES in COMMON STOCK EQUITY

(in millions except shares outstanding)	Common Stock Outstanding		Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Common Stock Equity
	Shares	Amount			
Balance, December 31, 2006	100	\$1,100	\$(1)	\$1,588	\$2,687
Net income		—	—	317	317
Other comprehensive loss		—	(7)	—	(7)
Stock-based compensation expense		9	—	—	9
Preferred stock dividends at stated rates		—	—	(2)	(2)
Tax benefit dividend		—	—	(2)	(2)
Balance, December 31, 2007	100	1,109	(8)	1,901	3,002
Net income		—	—	385	385
Other comprehensive income		—	7	—	7
Stock-based compensation expense		7	—	—	7
Preferred stock dividends at stated rates		—	—	(2)	(2)
Balance, December 31, 2008	100	1,116	(1)	2,284	3,399
Net income		—	—	462	462
Other comprehensive income		—	4	—	4
Stock-based compensation expense		8	—	—	8
Contributions from parent		620	—	—	620
Preferred stock dividends at stated rates		—	—	(2)	(2)
Tax benefit dividend		—	—	(1)	(1)
Balance, December 31, 2009	100	\$1,744	\$3	\$2,743	\$4,490

FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.

STATEMENTS of COMPREHENSIVE INCOME

(in millions)			
Years ended December 31	2009	2008	2007
Net income	\$462	\$385	\$317
Other comprehensive income (loss)			
Net unrealized gains (losses) on cash flow hedges (net of tax (expense) benefit of \$(2), \$(5) and \$5, respectively)	4	7	(7)
Other comprehensive income (loss)	4	7	(7)
Comprehensive income	\$466	\$392	\$310

See Notes to Progress Energy Florida, Inc. Financial Statements.

PROGRESS ENERGY, INC.
CAROLINA POWER & LIGHT COMPANY d/b/a/ PROGRESS ENERGY CAROLINAS, INC.
FLORIDA POWER CORPORATION d/b/a/ PROGRESS ENERGY FLORIDA, INC.

COMBINED NOTES TO FINANCIAL STATEMENTS

In this report, Progress Energy, which includes Progress Energy, Inc. holding company (the Parent) and its regulated and nonregulated subsidiaries on a consolidated basis, is at times referred to as “we,” “us” or “our.” When discussing Progress Energy’s financial information, it necessarily includes the results of PEC and PEF (collectively, the Utilities). The term “Progress Registrants” refers to each of the three separate registrants: Progress Energy, PEC and PEF. The information in these combined notes relates to each of the Progress Registrants as noted in the Index to the Combined Notes. However, neither of the Utilities makes any representation as to information related solely to Progress Energy or the subsidiaries of Progress Energy other than itself.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

PROGRESS ENERGY, INC.

The Parent is a holding company headquartered in Raleigh, N.C. As such, we are subject to regulation by the Federal Energy Regulatory Commission (FERC) under the regulatory provisions of the Public Utility Holding Company Act of 2005 (PUHCA 2005).

Our reportable segments are PEC and PEF, both of which are primarily engaged in the generation, transmission, distribution and sale of electricity. The Corporate and Other segment primarily includes amounts applicable to the activities of the Parent and Progress Energy Service Company (PESC) and other miscellaneous nonregulated businesses (Corporate and Other) that do not separately meet the quantitative disclosure requirements as a reportable business segment. See Note 19 for further information about our segments.

PEC

PEC is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina and South Carolina. PEC’s subsidiaries are involved in insignificant nonregulated business activities. PEC is subject to the regulatory provisions of the North Carolina Utilities Commission (NCUC), Public Service Commission of South Carolina (SCPSC), the United States Nuclear Regulatory Commission (NRC) and the FERC.

PEF

PEF is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in west central Florida. PEF is subject to the regulatory provisions of the Florida Public Service Commission (FPSC), the NRC and the FERC.

B. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), including GAAP for regulated operations. The financial statements include the activities of the Parent and our majority-owned and controlled subsidiaries. The Utilities are subsidiaries of Progress Energy, and as such their financial condition and results of operations and cash flows are also consolidated, along with our nonregulated subsidiaries, in our consolidated financial statements.

Noncontrolling interests in subsidiaries along with the income or loss attributed to these interests are included in noncontrolling interest in both the Consolidated Balance Sheets and in the Consolidated Statements of Income. The results of operations for noncontrolling interests are reported on a net of tax basis if the underlying subsidiary is structured as a taxable entity.

Unconsolidated investments in companies over which we do not have control, but have the ability to exercise influence over operating and financial policies, are accounted for under the equity method of accounting. These investments are primarily in limited liability corporations and limited liability partnerships, and the earnings from these investments are recorded on a pre-tax basis. Other investments are stated principally at cost. These equity and cost method investments are included in miscellaneous other property and investments in the Consolidated Balance Sheets. See Note 12 for more information about our investments.

Significant intercompany balances and transactions have been eliminated in consolidation except as permitted by GAAP for regulated operations, 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.

Our presentation of operating, investing and financing cash flows combines the respective cash flows from our continuing and discontinued operations as permitted under GAAP.

These combined notes accompany and form an integral part of Progress Energy's and PEC's consolidated financial statements and PEF's financial statements.

Certain amounts for 2008 and 2007 have been reclassified to conform to the 2009 presentation.

C. CONSOLIDATION OF VARIABLE INTEREST ENTITIES

We consolidate all voting interest entities in which we own a majority voting interest and all variable interest entities (VIEs) for which we are the primary beneficiary. In general, we determine whether we are the primary beneficiary of a VIE through a qualitative analysis of risk that identifies which variable interest holder absorbs the majority of the financial risk and variability of the VIE. In performing this analysis, we consider all relevant facts and circumstances, including: the design and activities of the VIE, the terms of the contracts the VIE has entered into, the nature of the VIE's variable interests issued and how they were negotiated with or marketed to potential investors, and which parties participated significantly in the design or redesign of the entity. If the qualitative analysis is inconclusive, a specific quantitative analysis is performed.

In June 2009, the Financial Accounting Standards Board (FASB) issued new guidance which makes significant changes to the model for determining who should consolidate a VIE and addresses how often this assessment should be performed. See Note 2 for further discussion regarding the new guidance, which requires all existing arrangements with VIEs to be evaluated, and any impacts of adoption accounted for as a cumulative-effect adjustment. The guidance is effective for us on January 1, 2010. We do not expect the adoption to have a significant impact on our or the Utilities' financial position, results of operations and cash flows.

PROGRESS ENERGY

In addition to the following variable interests listed for PEC, Progress Energy, through its subsidiary Progress Fuels Corporation (Progress Fuels), is the primary beneficiary of, and consolidates, Ceredo Synfuel, LLC (Ceredo), a coal-based solid synthetic fuels production facility that qualified for federal tax credits under Section 45K of the Internal Revenue Code (the Code). In March 2007, we disposed of our 100 percent ownership interest in Ceredo to a third-party buyer. Ceredo ceased operations upon expiration of the synthetic fuels tax credit program at the end of 2007. Our variable interests in Ceredo are comprised of an agreement to operate the Ceredo facility on behalf of the buyer through December 2007 and certain legal and tax indemnifications provided to the buyer. We performed a qualitative analysis to determine the primary beneficiary of Ceredo. The primary factors in the analysis were the estimated levels of production of qualifying synthetic fuels in 2007, the final value of the related 2007 synthetic fuels tax credits, the likelihood of a full or partial phase-out of the 2007 synthetic fuels tax credits due to high oil prices, our exposure to certain variable costs under the facility operating agreement and exposure from indemnifications provided to the buyer. There were no changes to our assessment of the primary beneficiary during 2008 or 2009. No financial or other support has been provided to Ceredo during the periods presented. At December 31, 2009, we had no assets and \$3 million of liabilities related to tax indemnifications provided to the buyer included in other liabilities and deferred credits on the Consolidated Balance Sheets. The ultimate resolution of the indemnifications could result in adjustments to the gain on disposal in future periods. The creditors of Ceredo do not

have recourse to the general credit of Progress Energy. See Note 22C for a general discussion of guarantees. See Note 22D for discussion of recent developments related to legal indemnifications.

PEC

VARIABLE INTEREST ENTITIES FOR WHICH PEC IS THE PRIMARY BENEFICIARY

PEC is the primary beneficiary of, and consolidates, two limited partnerships that qualify for federal affordable housing and historic tax credits under Section 42 of the Internal Revenue Code (the Code). PEC's variable interests are debt and equity investments in the two VIEs. PEC performed quantitative analyses to determine the primary beneficiaries of the two VIEs. The primary factors in the analyses were the estimated economic lives of the partnerships and their net cash flow projections, estimates of available tax credits, and the likelihood of default on debt and other commitments. There were no changes to PEC's assessment of the primary beneficiary during 2007 through 2009. No financial or other support has been provided to the VIEs during the periods presented. At December 31, 2009, PEC had assets of \$39 million, substantially all of which was reflected in miscellaneous other property and investment, and \$15 million in long-term debt, \$3 million in other liabilities and deferred credits and \$5 million in accounts payable in the PEC Consolidated Balance Sheets related to the two VIEs. The assets of the two VIEs are collateral for, and can only be used to settle, their obligations. The creditors of these VIEs do not have recourse to the general credit of PEC and there are no other arrangements that could expose PEC to losses.

OTHER VARIABLE INTERESTS

PEC has an equity investment in, and consolidates, one limited partnership investment fund that invests in 17 low-income housing partnerships that qualify for federal and state tax credits. The investment fund accounts for the 17 partnerships on the equity method of accounting. PEC also has an interest in one power plant resulting from long-term power purchase contracts. PEC's only significant exposure to variability from the power purchase contracts results from fluctuations in the market price of fuel used by the entity's plants to produce the power purchased by PEC. We are able to recover these fuel costs under PEC's fuel clause. Total purchases from this counterparty were \$46 million, \$44 million and \$39 million in 2009, 2008 and 2007, respectively. The generation capacity of the entity's power plant is approximately 847 megawatts (MW). PEC has requested the necessary information to determine if the investment fund's 17 partnerships and the power plant owner are VIEs or to identify the primary beneficiaries; all entities from which the necessary financial information was requested declined to provide the information to PEC, and, accordingly, PEC has applied the information scope exception provided by GAAP to the 17 partnerships and the power plant. PEC believes that if it is determined to be the primary beneficiary of these entities, the effect of consolidating the power plant and the investment fund consolidating the 17 partnerships would result in increases to total assets, long-term debt and other liabilities, but would have an insignificant or no impact on PEC's common stock equity, net earnings or cash flows. However, because PEC has not received any financial information from the counterparties, the impact cannot be determined at this time.

PEF

PEF has no significant variable interests in VIEs.

D. SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES AND ASSUMPTIONS

In preparing consolidated financial statements that conform to 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 consolidated financial statements, and amounts of revenues and expenses reflected during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

We recognize revenue when it is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; our price to the buyer is fixed or determinable; and collectability is reasonably assured. We recognize electric utility revenues as

service is rendered to customers. Operating revenues include unbilled electric utility base revenues earned when service has been delivered but not billed by the end of the accounting period. Customer prepayments are recorded as deferred revenue and recognized as revenues as the services are provided.

FUEL COST DEFERRALS

Fuel expense includes fuel costs and other recoveries that are deferred through fuel clauses established by the Utilities' regulators. These clauses allow the Utilities to recover fuel costs, fuel-related costs and portions of purchased power costs through surcharges on customer rates. These deferred fuel costs are recognized in revenues and fuel expenses as they are billable to customers.

EXCISE TAXES

The Utilities collect from customers certain excise taxes levied by the state or local government upon the customers. The Utilities account for sales and use tax on a net basis and gross receipts tax, franchise taxes and other excise taxes on a gross basis.

The amount of gross receipts tax, franchise taxes and other excise taxes included in operating revenues and taxes other than on income in the statements of income for the years ended December 31 were as follows:

(in millions)	2009	2008	2007
Progress Energy	\$333	\$295	\$299
PEC	108	102	99
PEF	225	193	200

STOCK-BASED COMPENSATION

As discussed in Note 9B, we account for stock-based compensation utilizing the modified prospective transition method per the fair value recognition provisions of GAAP.

RELATED PARTY TRANSACTIONS

Our subsidiaries provide and receive services, at cost, to and from the Parent and its subsidiaries, in accordance with PUHCA 2005. The costs of the services are billed on a direct-charge basis, whenever possible, and on allocation factors for general costs that cannot be directly attributed. In the subsidiaries' financial statements, billings from affiliates are capitalized or expensed depending on the nature of the services rendered.

UTILITY PLANT

Utility plant in service is stated at historical cost less accumulated depreciation. We capitalize all construction-related direct labor and material costs of units of property as well as indirect construction costs. Certain costs are capitalized in accordance with regulatory treatment. The cost of renewals and betterments is also capitalized. Maintenance and repairs of property (including planned major maintenance activities), and replacements and renewals of items determined to be less than units of property, are charged to maintenance expense as incurred, with the exception of nuclear outages at PEF. Pursuant to a regulatory order, PEF accrues for nuclear outage costs in advance of scheduled outages, which occur every two years. The cost of units of property replaced or retired, less salvage, is charged to accumulated depreciation. Removal or disposal costs that do not represent asset retirement obligations (AROs) are charged to a regulatory liability.

Allowance for funds used during construction (AFUDC) represents the estimated costs of capital funds necessary to finance the construction of new regulated assets. As prescribed in the regulatory uniform system 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.

Nuclear fuel is classified as a fixed asset and included in the utility plant section of the Balance Sheets. Nuclear fuel in the front-end fuel processing phase is considered work in progress and not amortized until placed in service.

DEPRECIATION AND AMORTIZATION – UTILITY PLANT

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 salvage (See Note 4A). Pursuant to their rate-setting authority, the NCUC, SCPSC and FPSC can also grant approval to accelerate or reduce depreciation and amortization rates of utility assets (See Note 7).

Amortization of nuclear fuel costs is computed primarily on the units-of-production method. In the Utilities' retail jurisdictions, provisions for nuclear decommissioning costs are approved by the NCUC, the SCPSC and the FPSC and are based on site-specific estimates that include the costs for removal of all radioactive and other structures at the site. In the wholesale jurisdictions, the provisions for nuclear decommissioning costs are approved by the FERC.

The North Carolina Clean Smokestacks Act (Clean Smokestacks Act) was enacted in 2002 and froze North Carolina electric utility base rates for a five-year period, which ended in December 2007. Subsequent to 2007, PEC's current North Carolina base rates are continuing subject to traditional cost-based rate regulation. During the rate freeze period, the legislation provided for the amortization and recovery of 70 percent of the original estimated compliance costs for the Clean Smokestacks Act while providing significant flexibility in the amount of annual amortization recorded from none up to \$174 million per year. In September 2008, the NCUC approved PEC's request to terminate any further accelerated amortization of its Clean Smokestacks compliance costs (See Note 7B).

ASSET RETIREMENT OBLIGATIONS

AROs are legal obligations associated with the retirement of certain tangible long-lived assets. The present values of retirement costs for which we have a legal obligation are recorded as liabilities with an equivalent amount added to the asset cost and depreciated over the useful life of the associated asset. The liability is then accreted over time by applying an interest method of allocation to the liability. Accretion expense is included in depreciation, amortization and accretion in the Consolidated Statements of Income.

CASH AND CASH EQUIVALENTS

We consider cash and cash equivalents to include unrestricted cash on hand, cash in banks and temporary investments purchased with an original maturity of three months or less.

INVENTORY

We account for inventory, including emission allowances, using the average cost method. We value inventory of the Utilities at historical cost consistent with ratemaking treatment. Materials and supplies are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, when installed. Materials reserves are established for excess and obsolete inventory.

REGULATORY ASSETS AND LIABILITIES

The Utilities' operations are subject to GAAP for regulated operations, which 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, the Utilities record 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 Consolidated Balance Sheets as regulatory assets and regulatory liabilities (See Note 7A). The regulatory assets and liabilities are amortized consistent with the treatment of the related cost in the ratemaking process.

NUCLEAR COST DEFERRALS

PEF accounts for costs incurred in connection with the proposed nuclear expansion in Florida in accordance with FPSC regulations, which establish an alternative cost-recovery mechanism. PEF is allowed to accelerate the recovery of prudently incurred siting, preconstruction costs, AFUDC and incremental operation and maintenance expenses resulting from the siting, licensing, design and construction of a nuclear plant through PEF's capacity cost-recovery clause. Nuclear costs are deemed to be recovered up to the amount of the FPSC-approved projections, and

the deferral of unrecovered nuclear costs accrues a carrying charge equal to PEF's approved AFUDC rate. Unrecovered nuclear costs eligible for accelerated recovery are deferred and recorded as regulatory assets in the Consolidated Balance Sheets and are amortized in the period the costs are collected from customers.

GOODWILL AND INTANGIBLE ASSETS

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. Intangible assets are amortized based on the economic benefit of their respective lives.

UNAMORTIZED DEBT PREMIUMS, DISCOUNTS AND EXPENSES

Long-term debt premiums, discounts and issuance expenses are amortized over the terms of the debt issues. Any expenses or call premiums associated with the reacquisition of debt obligations by the Utilities are amortized over the applicable lives using the straight-line method consistent with ratemaking treatment (See Note 7A).

INCOME TAXES

We and our affiliates file a consolidated federal income tax return. The consolidated income tax of Progress Energy is allocated to PEC and PEF in accordance with the Intercompany Income Tax Allocation Agreement (Tax Agreement). The Tax Agreement provides an allocation that recognizes positive and negative corporate taxable income. The Tax Agreement provides for an equitable method of apportioning the carryover of uncompensated tax benefits, which primarily relate to deferred synthetic fuels tax credits. Income taxes are provided for as if PEC and PEF filed separate returns.

Deferred income taxes have been provided for temporary differences. These occur when the book and tax carrying amounts of assets and liabilities differ. 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 fuels are deferred credits to the extent they cannot be or have not been utilized in the annual consolidated federal income tax returns, and are included in income tax expense (benefit) of discontinued operations in the Consolidated Statements of Income. We accrue for uncertain tax positions when it is determined that it is more likely than not that the benefit will not be sustained on audit by the taxing authority, including resolutions of any related appeals or litigation processes, based solely on the technical merits of the associated tax position. If the recognition threshold is met, the tax benefit recognized is measured at the largest amount of the tax benefit that, in our judgment, is greater than 50 percent likely to be realized. Interest expense on tax deficiencies and uncertain tax positions is included in net interest charges, and tax penalties are included in other, net in the Consolidated Statements of Income.

DERIVATIVES

GAAP requires that an entity recognize all derivatives as assets or liabilities on the balance sheet and measure those instruments at fair value, unless the derivatives meet the GAAP criteria for normal purchases or normal sales and are designated as such. We generally designate derivative instruments as normal purchases or normal sales whenever the criteria are met. If normal purchase or normal sale criteria are not met, we will generally designate the derivative instruments as cash flow or fair value hedges if the related hedge criteria are met. We have elected not to offset fair value amounts recognized for derivative instruments and related collateral assets and liabilities with the same counterparty under a master netting agreement. Certain economic derivative instruments receive regulatory accounting treatment, under which unrealized gains and losses are recorded as regulatory liabilities and assets, respectively, until the contracts are settled. See Note 17 for additional information regarding risk management activities and derivative transactions.

LOSS CONTINGENCIES AND ENVIRONMENTAL LIABILITIES

We accrue for loss contingencies, such as unfavorable results of litigation, when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. We do not accrue an estimate of legal fees when a contingent loss is initially recorded, but rather when the legal services are actually provided.

As discussed in Note 21, we accrue environmental remediation liabilities when the criteria for loss contingencies have been met. We record accruals for probable and estimable costs related to environmental sites on an undiscounted basis. Environmental 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. Certain environmental expenses receive regulatory accounting treatment, under which the expenses are recorded as regulatory assets. Recoveries of environmental remediation costs from other parties are recognized when their receipt is deemed probable or on actual receipt of recovery. Environmental expenditures that have future economic benefits are capitalized in accordance with our asset capitalization policy.

IMPAIRMENT OF LONG-LIVED ASSETS AND INVESTMENTS

We review the recoverability of long-lived tangible and intangible assets whenever impairment 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 impairment indicator exists for assets to be held and used, 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 or the asset group is to be disposed of, then an impairment loss is recognized for the difference between the carrying value and the fair value of the asset group.

We review our equity investments to evaluate whether or not a decline in fair value below the carrying value is an other-than-temporary decline. We consider various factors, such as the investee's cash position, earnings and revenue outlook, liquidity and management's ability to raise capital in determining whether the decline is other-than-temporary. If we determine that an other-than-temporary decline in value exists, the investments are written down to fair value with a new cost basis established.

2. NEW ACCOUNTING STANDARDS

Effective July 1, 2009, changes to the source of authoritative U.S. GAAP, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), are communicated through an Accounting Standards Update (ASU). ASUs will be published for all authoritative U.S. GAAP promulgated by the FASB, regardless of the form in which such guidance may have been issued prior to release of the FASB Codification (e.g., FASB Statements, FASB Staff Positions, etc.).

ASC 810 Consolidations

On January 1, 2009, we implemented ASC 810-10-65, which was previously referred to as Statement of Financial Accounting Standards (SFAS) No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin (ARB) No. 51." ASC 810-10-65 introduces significant changes in the accounting for noncontrolling interests in a partially owned consolidated subsidiary. The adoption of ASC 810-10-65 resulted in a retrospective change in presentation of the financial statements for all periods presented and additional disclosures but did not have a material impact on our or the Utilities' financial position or results of operations.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities." In January 2010, the FASB issued ASU 2009-17, "Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities," which codified SFAS No. 167. This guidance makes significant changes to the model for determining who should consolidate a VIE, addresses how often this assessment should be performed, requires all existing arrangements with VIEs to be evaluated, and must be adopted through a cumulative-effect adjustment. This guidance is effective for us on January 1, 2010. See Note 1C for information regarding our implementation of ASU 2009-17 and its expected impact on our financial position and results of operations.

ASC 815-10-65 (SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133")

On January 1, 2009, we implemented ASC 815-10-65, which was previously referred to as SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." ASC 815-10-65 requires entities to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and its related interpretations and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. See Note 17 for information regarding our first quarter 2009 implementation of ASC 815-10-65. The adoption of ASC 815-10-65 did not have a material impact on our or the Utilities' financial position or results of operations.

ASC 260-10-45 (FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities")

On January 1, 2009, we implemented ASC 260-10-45, which was previously referred to as FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." ASC 260-10-45 requires that certain unvested share-based payment awards (e.g., restricted stock) that contain nonforfeitable rights to dividends or dividend equivalents be included in the computation of earnings per share using the two-class method. ASC 260-10-45 requires a retrospective adjustment for all prior-period earnings per share data. The adoption of ASC 260-10-45 did not have a material impact on our or the Utilities' financial position, results of operations or earnings per share amounts.

Fair Value Measurement and Disclosures and Other-Than-Temporary Impairments

In April 2009, the FASB issued three FSPs for guidance on accounting for fair value measurement and other-than-temporary impairments.

ASC 820 includes the FSP previously referred to as FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," and provides guidance on determining fair value when market activity has decreased for an asset or liability. ASC 825-10-50, previously referred to as FSP FAS 107-1 and APB 28-1, "Interim Disclosures About Fair Value of Financial Instruments," increases the frequency of fair value disclosures required from annually to quarterly.

ASC 320 includes the FSPs previously referred to as FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," and revises the recognition and reporting requirements for other-than-temporary impairments of debt securities and increases the frequency of disclosures for debt and equity securities. Under ASC 320, if an entity intends to sell an impaired debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, an other-than-temporary impairment must be recognized currently in earnings equal to the difference between the investment's amortized cost and its fair value at the balance sheet date.

The new guidance in ASC 820, ASC 825 and ASC 320 was effective for us during the three months ended June 30, 2009. The adoption resulted in additional disclosures but did not have a material impact on our or the Utilities' financial position or results of operations. See Note 13 for the disclosures resulting from the implementation of this guidance in 2009.

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements," which amends ASC 820 to clarify certain existing disclosure requirements and to require a number of additional disclosures, including amounts and reasons for significant transfers between the three levels of the fair value hierarchy, and presentation of certain information in the reconciliation of recurring Level 3 measurements on a gross basis. ASU 2010-06 is effective for us on January 1, 2010, with certain disclosures effective for periods beginning January 1, 2011. The adoption of ASU 2010-06 will change certain disclosures in the notes to the financial statements, but will have no impact on our or the Utilities' financial position or results of operations.

ASC 715-20-65 (FSP FAS 132R-1, "Employers' Disclosures about Post Retirement Benefit Plan Assets")

In December 2008, the FASB issued ASC 715-20-65, previously referred to as FSP FAS 132R-1, "Employers' Disclosures about Post Retirement Benefit Plan Assets," which requires additional disclosures on the investment allocation decision making process, the fair value of each major category of plan assets and the inputs and valuation techniques used to remeasure the fair value of plan assets. ASC 715-20-65 was effective for us on December 31, 2009. The adoption of ASC 715-20-65 resulted in additional disclosures, but did not have a material impact on our or the Utilities' financial position or results of operations. See Note 16 for the information regarding our implementation of ASC 715-20-65.

ASU 2009-12, "Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)"

In September 2009, the FASB issued ASU 2009-12, "Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," which provides additional guidance related to measuring the fair value of certain alternative investments, such as interests in hedge funds, private equity funds, real estate funds, venture capital funds, offshore fund vehicles, and funds of funds. ASU 2009-12 allows reporting entities to use net asset value per share to estimate the fair value of certain investments as a practical expedient and requires disclosures by major category of investment about the attributes of the investments. ASU 2009-12 was effective for us on December 31, 2009. The adoption of ASU 2009-12 did not have a material impact on our or the Utilities' financial position or results of operations.

3. DIVESTITURES

We completed our business strategy of divesting nonregulated businesses to reduce our business risk and focus on core operations of the Utilities. The information below presents the impacts of the divestitures on net income attributable to controlling interests.

A. TERMINALS OPERATIONS AND SYNTHETIC FUELS BUSINESSES

On March 7, 2008, we sold coal terminals and docks in West Virginia and Kentucky (Terminals) for \$71 million in gross cash proceeds. Proceeds from the sale were used for general corporate purposes. During the year ended December 31, 2008, we recorded an after-tax gain of \$42 million on the sale of these assets. The accompanying consolidated financial statements reflect the operations of Terminals as discontinued operations.

Prior to 2008, we had substantial operations associated with the production of coal-based solid synthetic fuels as defined under Section 29 (Section 29) of the Code and as redesignated effective 2006 as Section 45K of the Code (Section 45K and, collectively, Section 29/45K). The production and sale of these products qualified for federal income tax credits so long as certain requirements were satisfied. As a result of the expiration of the tax credit program, all of our synthetic fuels businesses were abandoned and all operations ceased as of December 31, 2007.

On October 21, 2009, a jury delivered a verdict in a lawsuit against Progress Energy and a number of our subsidiaries and affiliates. As a result, during the year ended December 31, 2009, we recorded an after-tax charge of \$74 million to discontinued operations, which was net of a previously recorded indemnification liability of \$16 million, and \$4 million related to other legal and tax contingency adjustments. The ultimate resolution of these matters could result in further adjustments. See Note 22D for additional information. The accompanying consolidated statements of income reflect the abandoned operations of our synthetic fuels businesses as discontinued operations.

Results of Terminals and the synthetic fuels businesses discontinued operations for the years ended December 31 were as follows:

(in millions)	2009	2008	2007
Revenues	\$–	\$17	\$1,126
(Loss) earnings before income taxes and noncontrolling interest	\$(125)	\$8	\$2
Income tax benefit, including tax credits	47	12	64
(Loss) earnings attributable to noncontrolling interests of Synthetic Fuels	–	(1)	17
Net (loss) earnings from discontinued operations attributable to controlling interests	(78)	19	83
Gain on disposal of discontinued operations, including income tax expense of \$7	–	42	–
(Loss) earnings from discontinued operations attributable to controlling interests	\$(78)	\$61	\$83

B. COAL MINING BUSINESSES

On March 7, 2008, we sold the remaining operations of Progress Fuels Corporation, formerly Electric Fuels Corporation (Progress Fuels) subsidiaries engaged in the coal mining business (Coal Mining) for gross cash proceeds of \$23 million. Proceeds from the sale were used for general corporate purposes. As a result of the sale, during the year ended December 31, 2008, we recorded an after-tax gain of \$7 million on the sale of these assets. During 2009, we recognized a \$1 million loss as a result of post-closing adjustments and pre-divestiture contingencies.

The accompanying consolidated financial statements reflect the Coal Mining as discontinued operations. Results of discontinued operations for the coal mining businesses for the years ended December 31 were as follows:

(in millions)	2009	2008	2007
Revenues	\$–	\$2	\$28
Loss before income taxes	\$(2)	\$(13)	\$(17)
Income tax benefit	1	4	6
Net loss from discontinued operations	(1)	(9)	(11)
Gain on disposal of discontinued operations, including income tax expense of \$2	–	7	–
Loss from discontinued operations attributable to controlling interests	\$(1)	\$(2)	\$(11)

C. CCO – GEORGIA OPERATIONS

On March 9, 2007, our subsidiary, Progress Energy Ventures, Inc. (PVI), entered into a series of transactions to sell or assign substantially all of its Competitive Commercial Operations (CCO) physical and commercial assets and liabilities. The sale of the generation assets closed on June 11, 2007, for a net sales price of \$615 million. Based on the terms of the final agreement and post-closing adjustments, during the years ended December 31, 2008 and 2007, we incurred an additional \$2 million after-tax in losses and reversed \$18 million after-tax of a previously recorded impairment, respectively.

Additionally, on June 1, 2007, PVI closed the transaction involving the assignment of a contract portfolio consisting of full-requirements contracts with 16 Georgia electric membership cooperatives (the Georgia Contracts), forward gas and power contracts, gas transportation, structured power and other contracts to a third party. This represented substantially all of our nonregulated energy marketing and trading operations. As a result of the assignments, PVI made a net cash payment of \$347 million, which represented the net cost to assign the Georgia Contracts and other related contracts. In the year ended December 31, 2007, we recorded a charge associated with the costs to exit the Georgia Contracts, and other related contracts, of \$349 million after-tax (charge included in the net loss from discontinued operations in the table below). We used the net proceeds from the divestiture of CCO and the Georgia

Contracts for general corporate purposes. During 2008 and 2009, we recognized a \$5 million loss and a \$1 million gain, respectively, as a result of post-closing adjustments and pre-divestiture contingencies.

The accompanying consolidated financial statements reflect the operations of CCO as discontinued operations. Interest expense was allocated to discontinued operations based on their respective net assets, assuming a uniform debt-to-equity ratio across our operations. Pre-tax interest expense allocated for the year ended December 31, 2007, was \$11 million. Results of discontinued operations for CCO for the years ended December 31 were as follows:

(in millions)	2009	2008	2007
Revenues	\$—	\$—	\$407
Loss before income taxes	\$(1)	\$(5)	\$(449)
Income tax benefit	2	2	166
Net earnings (loss) from discontinued operations	1	(3)	(283)
(Loss) gain on disposal of discontinued operations, including income tax (expense) benefit of \$(2) and \$7, respectively	—	(2)	18
Earnings (loss) from discontinued operations attributable to controlling interests	\$1	\$(5)	\$(265)

D. OTHER DIVERSIFIED BUSINESSES

Also included in discontinued operations are amounts related to adjustments of our prior sales of other diversified businesses, primarily Progress Rail Services Corporation. We completed the sale of Progress Rail Services Corporation during the year ended December 31, 2005. As a result of certain legal, tax and environmental indemnifications provided by Progress Fuels and Progress Energy, we continue to record adjustments to the loss on sale. During the year ended December 31, 2009, we recorded an after-tax loss on disposal of \$1 million and after-tax gains of \$3 million and \$4 million for the years ended December 31, 2008 and 2007, respectively. The ultimate resolution of these matters could result in additional adjustments to the loss on sale in future periods. See general discussion of guarantees at Note 22C.

E. CEREDO SYNTHETIC FUELS INTERESTS

On March 30, 2007, our Progress Fuels subsidiary disposed of its 100 percent ownership interest in Ceredo, a subsidiary that produced and sold qualifying coal-based solid synthetic fuels, to a third-party buyer. In addition, we entered into an agreement to operate the Ceredo facility on behalf of the buyer. At closing, we received cash proceeds of \$10 million and a nonrecourse note receivable of \$54 million. Payments on the note were received as we produced and sold qualifying coal-based solid synthetic fuels on behalf of the buyer. In accordance with the terms of the agreement, we received payments on the note related to 2007 production of \$49 million during the year ended December 31, 2007, and a final payment of \$5 million during the year ended December 31, 2008. The note had an interest rate equal to the three-month London Inter Bank Offered Rate (LIBOR) rate plus 1%. The estimated fair value of the note at the inception of the transaction was \$48 million. Under the terms of the agreement, the purchase price was reduced by \$7 million during the year ended December 31, 2008, based on the final value of the 2007 Section 29/45K tax credits.

During the year ended December 31, 2008, we recognized previously deferred gains on disposal of \$5 million based on the final value of the 2007 Section 29/45K tax credits. The operations of Ceredo ceased as of December 31, 2007, and are recorded as discontinued operations for all periods presented. See discussion of the abandonment of our synthetic fuels operations at Note 3A.

On the date of the transaction, the carrying value of the disposed ownership interest totaled \$37 million, which consisted primarily of the fair value of crude oil call options purchased in January 2007. Subsequent to the disposal, we remain the primary beneficiary of Ceredo and continue to consolidate Ceredo in accordance with GAAP for variable interest entities, but record a 100 percent noncontrolling interest.

4. PROPERTY, PLANT AND EQUIPMENT

A. UTILITY PLANT

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

(in millions)	Depreciable Lives	<u>Progress Energy</u>		<u>PEC</u>		<u>PEF</u>	
		2009	2008	2009	2008	2009	2008
Production plant	7-43	\$16,042	\$14,117	\$9,579	\$9,249	6,280	\$4,689
Transmission plant	17-75	3,273	2,970	1,535	1,457	1,738	1,513
Distribution plant	13-55	8,376	8,028	4,499	4,330	3,877	3,698
General plant and other	5-35	1,227	1,211	684	662	543	549
Utility plant in service		\$28,918	\$26,326	\$16,297	\$15,698	\$12,438	\$10,449

Generally, electric utility plant at PEC and PEF, other than nuclear fuel, is pledged as collateral for the first mortgage bonds of PEC and PEF, respectively (See Note 11).

AFUDC represents the estimated 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 for certain projects in accordance with the regulatory provisions for each jurisdiction. 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 composite AFUDC rate for PEC's electric utility plant was 9.2%, 9.2% and 8.8% in 2009, 2008 and 2007, respectively. The composite AFUDC rate for PEF's electric utility plant was 8.8% in 2009, 2008 and 2007.

Our depreciation provisions on utility plant, as a percent of average depreciable property other than nuclear fuel, were 2.4%, 2.3% and 2.4% in 2009, 2008 and 2007, respectively. The depreciation provisions related to utility plant were \$626 million, \$578 million and \$560 million in 2009, 2008 and 2007, respectively. In addition to utility plant depreciation provisions, depreciation, amortization and accretion expense also includes decommissioning cost provisions, ARO accretion, cost of removal provisions (See Note 4C), regulatory approved expenses (See Notes 7 and 21) and Clean Smokestacks Act amortization (See Note 7B).

PEC's depreciation provisions on utility plant, as a percent of average depreciable property other than nuclear fuel, were 2.1% for 2009, 2008 and 2007. The depreciation provisions related to utility plant were \$328 million, \$310 million and \$303 million in 2009, 2008 and 2007, respectively. In addition to utility plant depreciation provisions, depreciation, amortization and accretion expense also includes decommissioning cost provisions, ARO accretion, cost of removal provisions (See Note 4C), regulatory approved expenses (See Note 7B) and Clean Smokestacks Act amortization (See Note 7B).

PEF's depreciation provisions on utility plant, as a percent of average depreciable property other than nuclear fuel, were 2.7% in 2009, 2008 and 2007. The depreciation provisions related to utility plant were \$299 million, \$268 million and \$257 million in 2009, 2008 and 2007, respectively. In addition to utility plant depreciation provisions, depreciation, amortization and accretion expense also includes decommissioning cost provisions, ARO accretion, cost of removal provisions (See Note 4C) and regulatory approved expenses (See Note 7C).

Nuclear fuel, net of amortization at December 31, 2009 and 2008, was \$554 million and \$482 million, respectively, for Progress Energy, \$396 million and \$376 million, respectively, for PEC and \$158 million and \$106 million, respectively, for PEF. The amount not yet in service at December 31, 2009 and 2008, was \$308 million and \$243 million, respectively, for Progress Energy, \$175 million and \$182 million, respectively, for PEC and \$133 million and \$61 million, respectively, for PEF. Amortization of nuclear fuel costs, including disposal costs associated with obligations to the U.S. Department of Energy (DOE) and costs associated with obligations to the DOE for the decommissioning and decontamination of enrichment facilities, was \$159 million, \$145 million and \$139 million for the years ended December 31, 2009, 2008 and 2007, respectively. This amortization expense is included in fuel used for electric generation in the Consolidated Statements of Income. Amortization of nuclear fuel costs for the years

ended December 31, 2009, 2008 and 2007 was \$134 million, \$115 million and \$110 million, respectively, for PEC and \$25 million, \$30 million and \$29 million, respectively, for PEF.

PEF's construction work in progress related to certain nuclear projects has received regulatory treatment. At December 31, 2009, PEF reflected \$296 million of construction work in progress, of which \$274 million was reflected as a nuclear cost-recovery clause regulatory asset (See Note 7C) and \$22 million was reflected as a deferred fuel regulatory asset. At December 31, 2008, PEF reflected \$174 million of construction work in progress as a regulatory asset pursuant to accelerated regulatory recovery of nuclear costs (See Note 7C).

B. JOINT OWNERSHIP OF GENERATING FACILITIES

PEC and PEF hold ownership interests in certain jointly owned generating facilities. Each is entitled to shares of the generating capability and output of each unit equal to their respective ownership interests. Each also pays its ownership share of additional construction costs, fuel inventory purchases and operating expenses, except in certain instances where agreements have been executed to limit certain joint owners' maximum exposure to the additional costs (See Note 21B). Each of the Utilities' share of operating costs of the jointly owned generating facilities is included within the corresponding line in the Statements of Income. The co-owner of Intercession City Unit P11 has exclusive rights to the output of the unit during the months of June through September. PEF has that right for the remainder of the year. PEC's and PEF's ownership interests in the jointly owned generating facilities are listed below with related information at December 31:

2009 (in millions)		Company			Construction
Subsidiary	Facility	Ownership Interest	Plant Investment	Accumulated Depreciation	Work in Progress
PEC	Mayo	83.83%	\$785	\$282	\$8
PEC	Harris	83.83%	3,207	1,651	28
PEC	Brunswick	81.67%	1,681	981	74
PEC	Roxboro Unit 4	87.06%	686	449	15
PEF	Crystal River Unit 3	91.78%	900	472	510
PEF	Intercession City Unit P11	66.67%	23	10	—

2008 (in millions)		Company			Construction
Subsidiary	Facility	Ownership Interest	Plant Investment	Accumulated Depreciation	Work in Progress
PEC	Mayo	83.83%	\$519	\$278	\$228
PEC	Harris	83.83%	3,187	1,603	21
PEC	Brunswick	81.67%	1,667	970	42
PEC	Roxboro Unit 4	87.06%	674	446	12
PEF	Crystal River Unit 3	91.78%	843	461	252
PEF	Intercession City Unit P11	66.67%	23	9	—

In the tables above, plant investment and accumulated depreciation are not reduced by the regulatory disallowances related to the Shearon Harris Nuclear Plant (Harris), which are not applicable to the joint owner's ownership interest in Harris.

C. ASSET RETIREMENT OBLIGATIONS

Primarily due to the impact of updated cost estimates, as discussed below, at December 31, 2009, PEC had no asset retirement costs included in utility plant related to nuclear decommissioning of irradiated plant. At December 31, 2008, PEC's asset retirement costs included in utility plant related to nuclear decommissioning of irradiated plant, net of accumulated depreciation totaled \$28 million. At December 31, 2009 and 2008, PEF's asset retirement costs included in utility plant related to nuclear decommissioning of irradiated plant, net of accumulated depreciation, totaled \$18 million and \$19 million, respectively. At December 31, 2009 and 2008, additional PEF-related asset retirement costs, net of accumulated depreciation, of \$114 million and \$116 million, respectively, were recorded at Progress Energy as purchase accounting adjustments recognized when we purchased Florida Progress Corporation

(Florida Progress) in 2000. The fair value of funds set aside in the Utilities' NDT funds for the nuclear decommissioning liability totaled \$871 million and \$672 million at December 31, 2009 and 2008, respectively, for PEC and \$496 million and \$417 million, respectively, for PEF (See Notes 12 and 13). Net NDT unrealized gains are included in regulatory liabilities (See Note 7A).

PEC's nuclear decommissioning cost provisions, which are included in depreciation and amortization expense, were \$31 million each in 2009, 2008 and 2007. As discussed below, PEF has suspended its accrual for nuclear decommissioning. Management believes that nuclear decommissioning costs that have been and will be recovered through rates by PEC and PEF will be sufficient to provide for the costs of decommissioning. Expenses recognized for the disposal or removal of utility assets that do not meet the definition of AROs, which are included in depreciation, amortization and accretion expense, were \$106 million, \$100 million and \$96 million in 2009, 2008 and 2007, respectively, for PEC and \$35 million, \$33 million and \$30 million in 2009, 2008 and 2007, respectively, for PEF.

During 2009, PEF submitted a depreciation study as required by the FPSC no less than every four years. Implementation of the depreciation study is expected to have an insignificant impact on cost of removal expense in 2010.

The Utilities recognize removal, nonirradiated decommissioning and dismantlement of fossil generation plant costs in regulatory liabilities on the Consolidated Balance Sheets (See Note 7A). At December 31, such costs consisted of:

(in millions)	<u>Progress Energy</u>		<u>PEC</u>		<u>PEF</u>	
	2009	2008	2009	2008	2009	2008
Removal costs	\$1,532	\$1,478	\$944	\$864	\$588	\$614
Nonirradiated decommissioning costs	211	146	150	84	61	62
Dismantlement costs	123	124	—	—	123	124
Non-ARO cost of removal	\$1,866	\$1,748	\$1,094	\$948	\$772	\$800

The NCUC requires that PEC update its cost estimate for nuclear decommissioning every five years. PEC received a new site-specific estimate of decommissioning costs for Robinson Nuclear Plant (Robinson) Unit No. 2, Brunswick Nuclear Plant (Brunswick) Units No. 1 and No. 2, and Harris Nuclear Plant (Harris) Unit No. 1, in December 2009, which will be filed with the NCUC in the first quarter of 2010. PEC's estimate is based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures currently at the site, with such removal occurring after operating license expiration. These decommissioning cost estimates also include interim spent fuel storage costs associated with maintaining spent nuclear fuel on site until such time that it can be transferred to a DOE facility (See Note 22D). These estimates, in 2009 dollars, were \$687 million for Unit No. 2 at Robinson, \$591 million for Brunswick Unit No. 1, \$585 million for Brunswick Unit No. 2 and \$1.126 billion for Harris. The estimates are subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimates exclude the portion attributable to North Carolina Eastern Municipal Power Agency (Power Agency), which holds an undivided ownership interest in Brunswick and Harris. See Note 7D for information about the NRC operating licenses held by PEC. Based on updated cost estimates, in 2009 PEC reduced its asset retirement cost net of accumulated depreciation and its ARO liability by approximately \$27 million and \$390 million, respectively, resulting in no asset retirement costs included in utility plant related to nuclear decommissioning of irradiated plant at December 31, 2009.

The FPSC requires that PEF update its cost estimate for nuclear decommissioning every five years. PEF received a new site-specific estimate of decommissioning costs for the Crystal River Unit No. 3 (CR3) in October 2008, which PEF filed with the FPSC in 2009 as part of PEF's base rate filing (See Note 7C). However, the FPSC deferred review of PEF's nuclear decommissioning study from the rate case to be addressed in 2010 in order for FPSC staff to assess PEF's study in combination with other utilities anticipated to submit nuclear decommissioning studies in 2010. PEF will not be required to prepare a new site-specific nuclear decommissioning study in 2010; however, PEF will be required to update the 2008 study with the most currently available escalation rates in 2010. PEF's estimate is based on prompt dismantlement decommissioning and includes interim spent fuel storage costs associated with maintaining spent nuclear fuel on site until such time that it can be transferred to a DOE facility (See Note 22D).

The estimate, in 2008 dollars, is \$751 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. See Note 7D for information about the NRC operating license held by PEF for CR3. Based on the 2008 estimate and assumed operating license renewal, PEF increased its asset retirement cost and its ARO liability by approximately \$19 million in 2008. Retail accruals on PEF's reserves for nuclear decommissioning were previously suspended under the terms of previous base rate settlement agreements. PEF expects to continue this suspension based on its planned 2010 nuclear decommissioning filing. In addition, the wholesale accrual on PEF's reserves for nuclear decommissioning was suspended retroactive to January 2006, following a FERC accounting order issued in November 2006.

The FPSC requires that PEF update its cost estimate for fossil plant dismantlement every four years. PEF received an updated fossil dismantlement study estimate in 2008, which PEF filed with the FPSC in 2009 as part of PEF's base rate filing. PEF's reserve for fossil plant dismantlement was approximately \$143 million and \$145 million at December 31, 2009 and 2008, including amounts in the ARO liability for asbestos abatement, discussed below. Retail accruals on PEF's reserves for fossil plant dismantlement were previously suspended under the terms of previous base rate settlement agreements.

PEC and PEF have recognized ARO liabilities related to asbestos abatement costs. The ARO liabilities related to asbestos abatement costs were \$27 million and \$21 million at December 31, 2009 and 2008, respectively, at PEC and \$27 million and \$24 million at December 31, 2009 and 2008, respectively, at PEF.

Additionally, PEC and PEF have recognized ARO liabilities related to landfill capping costs. The ARO liabilities related to landfill capping costs were \$1 million at December 31, 2009 and 2008, at PEC and \$6 million at December 31, 2009 and 2008, at PEF. For PEC, closure work related to the landfill commenced in 2009 and should be completed in 2010.

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

The following table presents the changes to the AROs during the years ended December 31, 2009 and 2008. Revisions to prior estimates of the PEC and PEF regulated ARO are related to the updated cost estimates for nuclear decommissioning and asbestos described above.

(in millions)	Progress Energy	PEC	PEF
Asset retirement obligations at January 1, 2008	\$1,378	\$1,063	\$315
Additions	7	1	6
Accretion expense	79	62	17
Revisions to prior estimates	7	(4)	11
Asset retirement obligations at December 31, 2008	1,471	1,122	349
Accretion expense	83	65	18
Revisions to prior estimates	(384)	(386)	2
Asset retirement obligations at December 31, 2009	\$1,170	\$801	\$369

D. INSURANCE

The Utilities are members 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, each company is insured for \$500 million at each of its respective nuclear plants. In addition to primary coverage, NEIL also provides decontamination, premature decommissioning and excess property insurance with limits of \$1.750 billion on each nuclear plant.

Insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at nuclear generating units is also provided through membership in NEIL. Both PEC and PEF are insured under this program, following a 12-week deductible period, for 52 weeks in the amount of \$3.5 million per week at Brunswick, Harris and Robinson, and \$4.5 million per week at CR3. An additional 110 weeks of coverage is provided at 80 percent of the above weekly amounts. For the current policy period, the companies are subject to retrospective premium assessments of up to approximately \$28 million with respect to the primary coverage, \$40 million with respect to the decontamination, decommissioning and excess property coverage, and \$25 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 NRC, each company's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place the plant in a safe and stable condition after an accident and, second, to decontaminate the plant, before any proceeds can be used for decommissioning, plant repair or restoration. Each company is responsible to the extent losses may exceed limits of the coverage described above.

Both of the Utilities are insured against public liability for a nuclear incident up to \$12.595 billion per occurrence. Under the current provisions of the Price Anderson Act, which limits liability for accidents at nuclear power plants, each company, as an owner of nuclear units, 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 each insured nuclear incident exceed the primary level of coverage provided by American Nuclear Insurers, each company would be subject to pro rata assessments of up to \$117.5 million for each reactor owned for each incident. Payment of such assessments would be made over time as necessary to limit the payment in any one year to no more than \$17.5 million per reactor owned per incident. Both the maximum assessment per reactor and the maximum yearly assessment are adjusted for inflation at least every five years. The next scheduled adjustment is due on or before August 29, 2013.

Under the NEIL policies, if there were multiple terrorism losses within one year, NEIL would make available one industry aggregate limit of \$3.240 billion for noncertified acts, 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.

The Utilities self-insure their transmission and distribution lines against loss due to storm damage and other natural disasters. PEF maintains a storm damage reserve pursuant to a regulatory order and may defer losses in excess of the reserve (See Note 7C).

5. RECEIVABLES

Income taxes receivable and interest income receivables are not included in receivables. These amounts are included in prepayments and other current assets or shown separately on the Consolidated Balance Sheets. At December 31 receivables were comprised of:

(in millions)	<u>Progress Energy</u>		<u>PEC</u>		<u>PEF</u>	
	2009	2008	2009	2008	2009	2008
Trade accounts receivable	\$581	\$648	\$291	\$350	\$288	\$298
Unbilled accounts receivable	193	182	125	120	68	62
Notes receivable	—	2	—	—	—	—
Derivatives accounts receivable	2	—	—	—	2	—
Other receivables	42	53	34	38	8	13
Allowance for doubtful receivables	(18)	(18)	(8)	(6)	(10)	(11)
Total receivables, net	\$800	\$867	\$442	\$502	\$356	\$362

6. INVENTORY

At December 31 inventory was comprised of:

(in millions)	<u>Progress Energy</u>		<u>PEC</u>		<u>PEF</u>	
	2009	2008	2009	2008	2009	2008
Fuel for production	\$667	\$614	\$304	\$287	\$363	\$327
Materials and supplies	639	588	366	338	273	250
Emission allowances	18	37	6	8	12	29
Other	1	—	1	—	—	—
Total inventory	\$1,325	\$1,239	\$677	\$633	\$648	\$606

Materials and supplies amounts above exclude long-term combustion turbine inventory amounts included in other assets and deferred debits on the Consolidated Balance Sheets for Progress Energy of \$24 million and \$23 million at December 31, 2009 and 2008, respectively.

Emission allowances above exclude long-term emission allowances included in other assets and deferred debits on the Consolidated Balance Sheets for Progress Energy, PEC and PEF of \$39 million, \$8 million and \$31 million, respectively, at December 31, 2009. Long-term emission allowances for Progress Energy, PEC and PEF were \$61 million, \$14 million and \$47 million, respectively, at December 31, 2008.

7. REGULATORY MATTERS

A. REGULATORY ASSETS AND LIABILITIES

As regulated entities, the Utilities are subject to the provisions of GAAP for regulated operations. Accordingly, the Utilities record certain assets and liabilities resulting from the effects of the ratemaking process that would not be recorded under GAAP for nonregulated entities. The Utilities' ability to continue to meet the criteria for application of GAAP for regulated operations could be affected in the future by competitive forces and restructuring in the electric utility industry. In the event that GAAP for regulated operations no longer applies to a separable portion of our operations, related regulatory assets and liabilities would be eliminated unless an appropriate regulatory recovery mechanism was provided. Additionally, such an event would require the Utilities to determine if any impairment to other assets, including utility plant, exists and write down impaired assets to their fair values.

Except for portions of deferred fuel costs and loss on reacquired debt, all regulatory 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. We expect to fully recover our regulatory assets and refund our regulatory liabilities through customer rates under current regulatory practice.

At December 31 the balances of regulatory assets (liabilities) were as follows:

Progress Energy		
(in millions)	2009	2008
Deferred fuel cost – current (Notes 7B and 7C)	\$105	\$335
Nuclear deferral (Note 7C)	37	190
Environmental	—	8
Total current regulatory assets	142	533
Deferred fuel cost – long-term (Note 7B) ^(a)	62	130
Nuclear deferral (Note 7C) ^(a)	239	—
Deferred impact of ARO (Note 4C) ^(b)	99	348
Income taxes recoverable through future rates ^(b)	264	193
Loss on reacquired debt ^(c)	35	37
Storm deferral (Note 7C) ^(d)	10	16
Postretirement benefits (Note 16) ^(e)	945	1,042
Derivative mark-to-market adjustment (Note 17A) ^(f)	436	697
Environmental (Notes 7C and 21A) ^(g)	24	31
Accrued vacation ^(a)	10	32
DSM / Energy-efficiency deferral (Note 7B) ^(h)	19	9
Other	36	32
Total long-term regulatory assets	2,179	2,567
Environmental (Note 7C)	(24)	—
Deferred energy conservation cost and other current regulatory liabilities	(3)	(6)
Total current regulatory liabilities	(27)	(6)
Non-ARO cost of removal (Note 4C) ^(b)	(1,866)	(1,748)
Deferred impact of ARO (Note 4C) ^(b)	(150)	(198)
Net nuclear decommissioning trust unrealized gains (Note 4C) ⁽ⁱ⁾	(295)	(28)
Derivative mark-to-market adjustment (Note 17A) ^(f)	(20)	(26)
Storm reserve (Note 7C) ^(g)	(136)	(129)
Other	(43)	(52)
Total long-term regulatory liabilities	(2,510)	(2,181)
Net regulatory (liabilities) assets	\$(216)	\$913
PEC		
(in millions)	2009	2008
Deferred fuel cost – current (Note 7B)	\$88	\$207
Deferred fuel cost – long-term (Note 7B) ^(a)	62	130
Deferred impact of ARO (Note 4C) ^(b)	92	343
Income taxes recoverable through future rates ^(b)	76	62
Loss on reacquired debt ^(c)	15	16
Postretirement benefits (Note 16) ^(e)	483	522
Derivative mark-to-market adjustment (Note 17A) ^(f)	88	96
Accrued vacation ^(a)	10	32
DSM / Energy-efficiency deferral ^(h)	19	9
Other	28	33
Total long-term regulatory assets	873	1,243
Non-ARO cost of removal (Note 4C) ^(b)	(1,094)	(948)
Net nuclear decommissioning trust unrealized gains (Note 4C) ⁽ⁱ⁾	(181)	(21)
Other	(18)	(18)
Total long-term regulatory liabilities	(1,293)	(987)
Net regulatory (liabilities) assets	\$(332)	\$463

PEF

(in millions)	2009	2008
Deferred fuel cost – current (Note 7C)	\$17	\$128
Nuclear deferral (Note 7C)	37	190
Environmental	–	8
Total current regulatory assets	54	326
Nuclear deferral (Note 7C) ^(a)	239	–
Income taxes recoverable through future rates ^(b)	188	131
Loss on reacquired debt ^(c)	20	21
Storm deferral (Note 7C) ^(d)	10	14
Postretirement benefits (Note 16) ^(e)	462	520
Derivative mark-to-market adjustment (Note 17A) ^(f)	348	601
Environmental (Notes 7C and 21A) ^(g)	19	21
Other	21	16
Total long-term regulatory assets	1,307	1,324
Environmental (Note 7C)	(24)	–
Deferred energy conservation cost and other current regulatory liabilities	(3)	(6)
Total current regulatory liabilities	(27)	(6)
Non-ARO cost of removal (Note 4C) ^(b)	(772)	(800)
Deferred impact of ARO (Note 4C) ^(b)	(30)	(76)
Net nuclear decommissioning trust unrealized gains (Note 4C) ⁽ⁱ⁾	(114)	(7)
Derivative mark-to-market adjustment (Note 17A) ^(f)	(20)	(26)
Storm reserve (Note 7C) ^(g)	(136)	(129)
Other	(31)	(38)
Total long-term regulatory liabilities	(1,103)	(1,076)
Net regulatory assets	\$231	\$568

The recovery and amortization periods for these regulatory assets and (liabilities) at 2009 are as follows:

- (a) Recorded and recovered or amortized as approved by the appropriate state utility commission over a period not exceeding five years.
- (b) Asset retirement and removal liabilities are recorded and income taxes recoverable through future rates are recovered over the related property lives, which may range up to 65 years. Asset retirement and removal liabilities will be settled and adjusted following completion of the related activities.
- (c) Recovered over either the remaining life of the original issue or, if refinanced, over the life of the new issue, which may range up to 30 years.
- (d) Recorded and recovered or amortized as approved by the FERC over a period not exceeding five years.
- (e) Recovered and amortized over the remaining service period of employees. In accordance with a 2009 FPSC order, PEF's 2009 deferred pension expense of \$34 million will be amortized to the extent that annual pension expense is less than the \$27 million allowance provided for in base rates (See Note 7C).
- (f) Related to derivative unrealized gains and losses that are recorded as a regulatory liability or asset, respectively, until the contracts are settled. After settlement of the derivatives and the fuel is consumed, the realized gains or losses are passed through the fuel cost-recovery clause.
- (g) Recovered as environmental remediation or storm restoration expenses are incurred.
- (h) Recorded and recovered or amortized as approved by the appropriate state utility commission over a period not exceeding 10 years.
- (i) Related to unrealized gains and losses on nuclear decommissioning trust funds that are recorded as a regulatory asset or liability, respectively, until the funds are used to decommission a nuclear plant.

B. PEC RETAIL RATE MATTERS

BASE RATES

PEC's base rates are subject to the regulatory jurisdiction of the NCUC and SCPSC. In PEC's most recent rate cases in 1988, the NCUC and the SCPSC each authorized a return on equity of 12.75 percent. In June 2002, the Clean Smokestacks Act was enacted in North Carolina requiring the state's electric utilities to reduce the emissions of nitrogen oxide (NOx) and sulfur dioxide (SO₂) from their North Carolina coal-fired power plants in phases by 2013. The Clean Smokestacks Act froze North Carolina electric utility base rates for a five-year period, which ended December 31, 2007, unless there were extraordinary events beyond the control of the utilities or unless the utilities persistently earned a return substantially in excess of the rate of return established and found reasonable by the NCUC in the respective utility's last general rate case. There were no adjustments to PEC's base rates during the five-year period ended December 31, 2007. Subsequent to 2007, PEC's current North Carolina base rates are continuing subject to traditional cost-based rate regulation. During the rate freeze period, the legislation provided for a minimum amortization and recovery of 70 percent of the original estimated compliance costs of \$813 million (or \$569 million) while providing flexibility in the amount of annual amortization recorded from none up to \$174 million per year.

For the years ended December 31, 2008 and 2007, PEC recognized Clean Smokestacks Act amortization of \$15 million and \$34 million, respectively, and recognized \$584 million in cumulative amortization through December 31, 2008. The NCUC ordered that PEC shall be allowed to include in rate base all reasonable and prudently incurred environmental compliance costs in excess of \$584 million as the projects are closed to plant in service. As a result of this order, PEC did not amortize \$229 million of the original estimated compliance costs for the Clean Smokestacks Act during 2008 and 2009, but will record depreciation over the useful lives of the assets.

See Note 21B for additional information about the Clean Smokestacks Act.

FUEL COST RECOVERY

On May 7, 2009, PEC filed with the SCPSC for a decrease in the fuel rate charged to its South Carolina ratepayers. On May 28, 2009, PEC jointly filed a settlement agreement with the South Carolina Office of Regulatory Staff and Nucor Steel. Under the terms of the settlement agreement, the parties agreed to PEC's proposed rate reduction of approximately \$13 million. On June 19, 2009, the SCPSC approved the settlement agreement. The decrease was effective July 1, 2009, and decreased residential electric bills by \$2.08 per 1,000 kilowatt-hours (kWh), or 2.0 percent, for fuel cost recovery. At December 31, 2009, PEC's South Carolina under-recovered deferred fuel balance was \$2 million.

On June 4, 2009, and as updated on August 17, 2009, PEC filed with the NCUC for a \$14 million decrease in the fuel rate charged to its North Carolina ratepayers, driven by declining fuel prices. On November 16, 2009, the NCUC approved PEC's request. Effective December 1, 2009, residential electric bills decreased by \$0.45 per 1,000 kWh, or 0.4 percent, for fuel cost recovery. At December 31, 2009, PEC's North Carolina under-recovered deferred fuel balance was \$148 million, of which \$62 million is expected to be collected after 2010 and has been classified as a long-term regulatory asset.

DEMAND-SIDE MANAGEMENT AND ENERGY-EFFICIENCY COST RECOVERY

Comprehensive energy legislation enacted by North Carolina in 2007 allows PEC to recover the costs of demand-side management (DSM) and energy-efficiency programs through an annual DSM clause. The law allows PEC to capitalize those costs intended to produce future benefits and authorizes the NCUC to approve other forms of financial incentives to the utility for DSM and energy-efficiency programs. DSM programs include, but are not limited to, any program or initiative that shifts the timing of electricity use from peak to nonpeak periods and includes load management, electricity system and operating controls, direct load control, interruptible load and electric system equipment and operating controls. PEC has implemented a series of DSM and energy-efficiency programs and will continue to pursue additional programs. These programs must be approved by the NCUC, and we cannot predict the outcome of the DSM and energy-efficiency filings currently pending approval by the NCUC or whether the implemented programs will produce the expected operational and economic results. At December 31, 2009, PEC's deferred North Carolina DSM and energy-efficiency costs totaled \$15 million.

On June 6, 2008, and as subsequently amended, PEC filed an application with the NCUC for approval of a DSM and energy-efficiency rider to recover all program costs, including the recovery of appropriate incentives for investing in such programs. On November 14, 2008, the NCUC issued an order allowing PEC to implement the rates requested in PEC's November 14, 2008 revision to its initial application. The new rates, subject to true-up to the final order, were implemented on December 1, 2008, increasing residential electrical bills by \$0.74 per 1,000 kWh, or 0.8 percent. As a result of settlement agreements entered into in 2007 and resulting regulatory proceedings, the NCUC ordered PEC to recalculate rates and submit to the NCUC for approval. The 2009 impact of these revised rates was immaterial.

On June 4, 2009, and as updated on August 17, 2009, PEC requested the NCUC approve a \$1 million increase in the DSM and energy-efficiency rate charged to its North Carolina ratepayers. Due to changes in how the costs are allocated among customer classes, the request results in a decrease to the residential rate, while increasing rates for other customer classes. The rate change was approved on an interim basis effective December 1, 2009, and decreased residential electric bills by \$0.19 per 1,000 kWh, or 0.2 percent.

On June 27, 2008, PEC filed an application with the SCPSC to establish procedures that encourage investment in cost-effective energy-efficient technologies and energy conservation programs and approve the establishment of an annual rider to allow recovery for all costs associated with such programs, as well as the recovery of appropriate incentives for investing in such programs. On January 23, 2009, PEC filed a Stipulation Agreement between PEC and some of the other parties to the proceeding. On May 6, 2009, the SCPSC approved the Stipulation Agreement and issued a directive requiring PEC to file for approval of all proposed DSM and energy-efficiency programs. On May 11, 2009, in accordance with the SCPSC directive, PEC filed its programs for approval and an application for a cost-recovery rider for PEC's DSM and energy-efficiency programs. On June 10, 2009, SCPSC approved the proposed DSM and energy-efficiency programs and the cost-recovery rider application, on a provisional basis pending a review of the cost-recovery rider by the South Carolina Office of Regulatory Staff. The rate increase was effective July 1, 2009, and increased residential electric bills by \$0.79 per 1,000 kWh, or 0.8 percent, for DSM and energy-efficiency cost recovery. We cannot predict the outcome of this matter. At December 31, 2009, PEC's deferred South Carolina DSM and energy-efficiency costs totaled \$4 million.

RENEWABLE ENERGY AND ENERGY EFFICIENCY PORTFOLIO STANDARD COST RECOVERY

Beginning in 2009, PEC is required to file an annual North Carolina Renewable Energy and Energy Efficiency Portfolio Standard (NC REPS) compliance report with the NCUC demonstrating the actions it has taken to comply with the NC REPS requirement. The rules measure compliance with the NC REPS requirement via renewable energy certificates (REC) earned after January 1, 2008. The NCUC has selected APX, Inc. as the vendor for implementation of a statewide REC tracking system. North Carolina electric power suppliers with a renewable energy compliance obligation, including PEC, will participate in the registry. Rates for the NC REPS clause are set based on projected costs with true-up provisions. On June 4, 2009 and as updated August 17, 2009, PEC filed with the NCUC for a \$7 million increase in the NC REPS rate charged to its North Carolina ratepayers. On November 12, 2009, the NCUC approved PEC's request effective December 1, 2009. PEC's residential electric bills increased by \$0.29 per month, or 0.3 percent, for renewable energy portfolio standard (REPS) cost recovery.

ENVIRONMENTAL COMPLIANCE COST RECOVERY

On February 11, 2009, the SCPSC issued an order allowing PEC to begin deferring as a regulatory asset the depreciation expense that PEC incurs on its environmental compliance control facilities as well as the incremental operation and maintenance expenses that PEC incurs in connection with its environmental compliance control facilities. At December 31, 2009, PEC's South Carolina environmental compliance cost-recovery balance was \$5 million.

OTHER MATTERS

The NCUC and the SCPSC approved proposals to accelerate cost recovery of PEC's nuclear generating assets beginning January 1, 2000, and continuing through 2009. The North Carolina aggregate minimum and maximum amounts of cost recovery were \$415 million and \$585 million, respectively, with flexibility in the amount of annual depreciation recorded, from none to \$150 million per year. Accelerated cost recovery of these assets resulted in

additional depreciation expense of \$52 million and \$37 million for the years ended December 31, 2008 and 2007, respectively. PEC reached the minimum amount of \$415 million of cost recovery by December 31, 2008, and no additional depreciation expense from accelerated cost recovery was recorded in 2009. The South Carolina aggregate minimum and maximum amounts of cost recovery were \$115 million and \$165 million, respectively. Prior to the SCPSC's 2008 approval to terminate PEC's remaining obligation to accelerate the cost recovery of PEC's nuclear generating assets, PEC had recorded cumulative accelerated depreciation of \$77 million for the South Carolina jurisdiction. As a result of the SCPSC's 2008 approval, PEC will not be required to recognize the remaining \$38 million of accelerated depreciation required to reach the minimum amount of cost recovery for the South Carolina jurisdiction, but will record depreciation over the useful lives of the assets. No additional depreciation expense from accelerated cost recovery for the South Carolina jurisdiction was recorded in 2009, 2008 or 2007.

On April 30, 2008, PEC submitted a revised Open Access Transmission Tariff (OATT) filing, including a settlement agreement, with the FERC requesting an increase in transmission rates. The purpose of the filing was to implement formula-based rates for the PEC OATT in order to more accurately reflect the costs that PEC incurs in providing transmission service. In the filing, PEC proposed to move from a fixed revenue requirement to a formula-based rate, which allows for transmission rates to be updated each year based on the prior year's actual costs. The settlement was approved by FERC and new rates were implemented on July 1, 2008. On May 15, 2009, PEC filed its annual update to the formula-based OATT rates. The new rates were effective June 1, 2009, and increased 2009 revenues by \$4 million.

On October 13, 2008, the NCUC issued a Certificate of Public Convenience and Necessity allowing PEC to proceed with plans to construct an approximately 600-MW combined cycle dual fuel-capable generating facility at its Richmond County generation site to provide additional generating and transmission capacity to meet the growing energy demands of southern and eastern North Carolina. PEC expects that the new generating and transmission capacity will be online by the second quarter of 2011.

North Carolina enacted a law in July 2009 that abbreviates the certification process for a public utility to construct a new natural gas plant as long as the public utility permanently retires the existing coal units at that specific site. On August 18, 2009, PEC filed with the NCUC an application for a Certificate of Public Convenience and Necessity to construct a 950-MW combined cycle natural gas-fueled electric generating facility at a site in Wayne County, N.C. PEC projects that the generating facility would be in service by January 2013. PEC proposed that upon completion of the generating facility, it will permanently cease operation of the three coal-fired generating units, with a combined generating capacity of approximately 400 MW, that are currently in operation at the site. This will result in approximately 550 MW of incremental capacity. On September 21, 2009, the Public Staff recommended that the NCUC issue the certificate subject to additional conditions as follows: the facility be constructed and operated in accordance with all applicable laws and regulations, PEC file with the NCUC a progress report and any revisions in the cost estimates on an annual basis, PEC permanently cease operation of the three coal-fired units immediately upon completion and placement into service of the facility and that the NCUC clarify that the issuance of the certificate does not constitute approval of the final costs associated with construction of the facility. On October 1, 2009, the NCUC issued a notice of decision stating it found good cause to issue an order granting PEC the certificate subject to the four conditions proposed by the Public Staff as well as adding a condition that PEC submit for NCUC approval a plan to retire additional coal-fired capacity reasonably proportionate to the 550 MW of incremental capacity. On October 22, 2009, the NCUC issued its order granting PEC the certificate to construct the 950-MW facility.

On December 1, 2009, PEC filed with the NCUC a plan to retire no later than December 31, 2017, all of its coal-fired generating facilities in North Carolina that do not have scrubbers. These facilities total approximately 1,500 MW at four sites. PEC intends to continue to depreciate these units using the current depreciation rates as on file with the NCUC and the SCPSC until PEC completes and files a new depreciation study.

On December 18, 2009, PEC filed with the NCUC an application for a Certificate of Public Convenience and Necessity to construct a 620-MW combined cycle natural gas-fueled electric generating facility at a site in New Hanover County, N.C. PEC projects that the generating facility would be in service by late 2013 or early 2014. PEC proposed that upon completion of the generating facility, it will permanently cease operation of the three coal-fired generating units currently in operation at the site that do not have scrubbers. These units have a combined generating capacity of approximately 600 MW.

C. PEF RETAIL RATE MATTERS

BASE RATES

As a result of a base rate proceeding in 2005, PEF was party to a base rate settlement agreement that was effective with the first billing cycle of January 2006 and remained in effect through the last billing cycle of December 2009.

On March 20, 2009, in anticipation of the expiration of its current base rate settlement agreement, PEF filed with the FPSC a proposal for an increase in base rates effective January 1, 2010. In its filing, PEF requested the FPSC to approve calendar year 2010 as the projected test period for setting new base rates and approve annual rate relief for PEF of \$499 million, which included PEF's petition for a combined \$76 million of new base rates in 2009 as discussed below. The request for increased base rates was based, in part, on investments PEF is making in its generating fleet and in its transmission and distribution systems.

Included within the base rate proposal was a request for an interim base rate increase of \$13 million. Additionally, on March 20, 2009, PEF petitioned the FPSC for a limited proceeding to include in base rates revenue requirements of \$63 million for the repowered Bartow Plant, which began commercial operations in June 2009. On May 19, 2009, the FPSC approved both the annualized interim base rate increase and the cost recovery for the repowered Bartow Plant subject to refund with interest effective July 1, 2009. Based on actual energy sales, the interim and limited base rate relief increased revenues by \$79 million during the year ended December 31, 2009. The changes increased residential bills by approximately \$4.52 per 1,000 kWh, or 3.7 percent. On July 2, 2009, Florida's Office of Public Counsel (OPC), the Florida Industrial Power Users Group, the attorney general, the Florida Retail Federation and PCS Phosphate filed a petition protesting portions of the FPSC approval. On August 31, 2009, the FPSC issued an order to consolidate the interim and limited base rate relief increase and the base rate proposal. PEF's remaining base rate request as filed by PEF would have increased residential bills by approximately \$9.66 per 1,000 kWh, or 7.6 percent, effective January 1, 2010. A hearing was held on this matter September 21, 2009 – October 1, 2009. On October 27, 2009, the FPSC held a hearing to determine if the voting of pending rate cases should be delayed until new FPSC appointees took office in January 2010. During the hearing, the FPSC voted to delay the rulings on the appropriate level of revenue requirements until January 11, 2010.

On January 11, 2010, the FPSC approved a base rate increase of \$132 million effective January 1, 2010, which represents the annualized impact of the rate increase that was approved and effective July 2009 for the repowered Bartow Plant. Additionally, the FPSC did not require PEF to refund the 2009 interim base rate increase previously discussed. The difference between PEF's requested \$499 million incremental revenues and the \$132 million granted by the FPSC is a function of several factors, including, among other things: 1) PEF had proposed rates based on a return on equity of 12.54 percent and the FPSC granted rates based on a return on equity of 10.5 percent; 2) the FPSC granted rates based on projected annual depreciation expense that is approximately \$119 million lower than the amount requested by PEF; and 3) the FPSC's ruling incorporates projected annual operating and maintenance (O&M) costs that are approximately \$77 million lower than the O&M cost requested by PEF and the elimination of \$15 million of annual storm reserve accrual, which represented a \$9 million increase over the accrual previously in effect. We are currently reviewing our regulatory options in Florida.

FUEL COST RECOVERY

On March 17, 2009, PEF received approval from the FPSC to reduce its 2009 fuel cost-recovery factors by an amount sufficient to achieve a \$206 million reduction in fuel charges to retail customers as a result of effective fuel purchasing strategies and lower fuel prices. The approval reduced residential customers' fuel charges by \$6.90 per 1,000 kWh, or 5.0 percent, starting with the first billing cycle of April 2009, with similar reductions for commercial and industrial customers.

On August 10, 2006, Florida's OPC filed a petition with the FPSC asking that the FPSC require PEF to refund to ratepayers alleged excessive past fuel-recovery charges and SO₂ allowance costs during the period 1996 to 2005. During the period specified in the petition, PEF's costs recovered through fuel-recovery clauses were annually reviewed for prudence and approval by the FPSC. On October 10, 2007, the FPSC issued its order rejecting most of the OPC's contentions. However, the FPSC found that PEF had not been prudent in purchasing a portion of its coal requirements during the period from 2003 to 2005. Accordingly, the FPSC ordered PEF to refund its ratepayers

approximately \$14 million, inclusive of interest, over a 12-month period beginning January 1, 2008. For the year ended December 31, 2007, PEF recorded a pre-tax other operating expense of \$12 million, interest expense of \$2 million and an associated \$14 million regulatory liability. The refund was returned to ratepayers in 2008 through a reduction of prior year under-recovered fuel costs. The FPSC also ordered PEF to address whether it was prudent in its 2006 and 2007 coal purchases for Crystal River Units No. 4 and 5 coal-fired steam turbines (CR4 and CR5). On February 2, 2009, the OPC filed direct testimony alleging that during 2006 and 2007, PEF collected excessive fuel costs and SO₂ allowance costs of \$61 million before interest. The OPC claimed that these excessive costs were attributed to PEF's ongoing practice of not blending the most economical sources of coal at its CR4 and CR5 Plants. During the hearing on the matter, the OPC reduced the alleged excessive fuel costs to \$33 million before interest. On June 30, 2009, the FPSC approved a refund of \$8 million to PEF's ratepayers to be paid over a 12-month period beginning January 1, 2010, and ordered PEF to file a report by September 2009 regarding the prospective application of PEF's coal procurement plan and the prudence of PEF's coal procurement actions. In compliance with the FPSC order, PEF filed the coal procurement status report on September 14, 2009. For the year ended December 31, 2009, PEF recorded a pre-tax other operating expense of \$8 million, an immaterial amount of interest and an associated regulatory liability included within PEF's deferred fuel cost at December 31, 2009. PEF chose not to appeal the FPSC's order.

On September 14, 2009, PEF filed a request with the FPSC to seek approval of a cost adjustment to reduce fuel costs by \$105 million, thereby decreasing residential electric bills by \$3.34 per 1,000 kWh, or 2.6 percent, effective January 1, 2010. This decrease is due to a decrease of \$9.89 per 1,000 kWh for the projected recovery of fuel costs, partially offset by an increase of \$6.55 per 1,000 kWh for the projected recovery through the capacity cost-recovery clause (CCRC). The decrease in projected fuel costs is due primarily to a decrease in the price of natural gas and a change in the expected average fuel costs. An extended biennial nuclear outage at CR3 for an uprate project in 2009 contributed to higher projected fuel costs for 2009; however, anticipated changes in the generation mix for 2010 are expected to result in lower average fuel costs and contributed to the projected decrease in 2010 fuel costs. The increase in the CCRC is primarily the result of projected costs to be incurred in 2010 under the nuclear cost-recovery rule discussed below for the proposed nuclear plant in Levy County, Fla. (Levy) and an under-recovery of purchased power costs in 2009. On October 23, 2009, as a result of the October 16, 2009 FPSC vote in the nuclear cost-recovery matter discussed more fully below, PEF filed a \$3 million cost adjustment with the FPSC, which reduced the CCRC rate by \$0.08 per 1,000 kWh from the original September 14, 2009 cost-adjustment filing. The FPSC approved PEF's fuel and capacity clause filings on November 2, 2009, to be effective January 1, 2010.

On August 28, 2009, PEF filed a request to increase the Environmental Cost Recovery Clause (ECRC) residential rate and the filing was updated on October 27, 2009. PEF is asking the FPSC to increase residential rates by \$2.25 per 1,000 kWh, or 1.8 percent. This would increase projected revenues by \$33 million. This increase is primarily due to the return on assets expected to be placed in service at the end of 2009. On September 14, 2009, PEF filed a request to increase the Energy Conservation Cost Recovery Clause (ECCR) residential rate by \$0.47 per 1,000 kWh, or 0.4 percent. This would increase projected revenues by \$4 million. This increase is due mainly to an increase in conservation program costs. The FPSC approved PEF's ECRC and ECCR clause filings on November 2, 2009, to be effective January 1, 2010.

NUCLEAR COST RECOVERY

Levy Nuclear

On March 11, 2008, PEF filed a petition for an affirmative Determination of Need for its proposed Levy Units 1 and 2 nuclear power plants, together with the associated facilities, including transmission lines and substation facilities. Levy Units 1 and 2 are needed to maintain electric system reliability and integrity, fuel and generating diversity and to continue to provide adequate electricity to PEF's customers at a reasonable cost. Levy Units 1 and 2 will be advanced passive light water nuclear reactors, each with a generating capacity of approximately 1,100 MW. The petition included projections that Levy Unit 1 would be placed in service by June 2016 and Levy Unit 2 by June 2017. The filed, nonbinding project cost estimate for Levy Units 1 and 2 was approximately \$14 billion for generating facilities and approximately \$3 billion for associated transmission facilities. The FPSC issued the final order granting the petition for the Determination of Need for the proposed nuclear units on August 12, 2008.

On March 11, 2008, PEF also filed a petition with the FPSC to open a discovery docket regarding the actual and projected costs of Levy. PEF filed the petition to assist the FPSC in the timely and adequate review of the proposed project's costs recoverable under the nuclear cost-recovery rule. On May 1, 2008, PEF filed a petition for recovery of both preconstruction and carrying charges on construction costs incurred or anticipated to be incurred during 2008 and 2009 under the nuclear cost-recovery rule. Based on the affirmative vote by the FPSC on the Determination of Need for Levy, PEF filed a petition on July 18, 2008, to recover all prudently incurred costs under the nuclear cost-recovery rule. On November 12, 2008, the FPSC issued an order to approve the inclusion of preconstruction and carrying charges of \$357 million as well as site selection costs of \$38 million in establishing PEF's 2009 capacity cost-recovery clause factor.

On March 17, 2009, PEF received approval from the FPSC to defer until 2010 the recovery of \$198 million of nuclear preconstruction costs for Levy, which the FPSC had authorized to be collected in 2009. The approval reduced residential customers' nuclear cost-recovery charge by \$7.80 per 1,000 kWh, or 5.7 percent, starting with the first billing cycle of April 2009, with similar reductions for commercial and industrial customers.

On May 1, 2009, pursuant to the FPSC nuclear cost-recovery rule, PEF filed a petition to recover \$446 million through the CCRC, which primarily consists of preconstruction and carrying costs incurred or anticipated to be incurred during 2009 and the projected 2010 costs associated with the Levy and CR3 uprate projects. In an effort to help mitigate the initial price impact on its customers, as part of its filing, PEF proposed collecting certain costs over a five-year period, with associated carrying costs on the unrecovered balance. This alternate proposal reduced the 2010 revenue requirement to \$236 million. On September 14, 2009, consistent with FPSC rules, PEF included both proposed revenue requirements in its CCRC filing, which would result in a nuclear cost-recovery charge of either \$7.98 per 1,000 kWh for residential customers under PEF's alternate proposal, or \$15.07 per 1,000 kWh if the FPSC did not approve PEF's alternate proposal. At a special agenda hearing by the FPSC on October 16, 2009, the FPSC approved the alternate proposal allowing PEF to recover \$207 million of revenue requirements associated with the nuclear cost-recovery clause through the CCRC beginning with the first billing cycle of January 2010. The remainder, with minor adjustments, will also be recovered through the CCRC. This revenue level results in a nuclear cost-recovery charge of \$6.99 per 1,000 kWh, which represents a \$2.68 increase per 1,000 kWh for residential customer bills. In adopting PEF's proposed rate management plan for 2010, the FPSC permitted PEF to annually reconsider changes to the recovery of deferred amounts to afford greater flexibility to manage future rate impacts.

On October 16, 2009, the FPSC clarified certain implementation policies related to the recognition of deferrals and the application of carrying charges under the nuclear cost-recovery rule. Specifically, the FPSC clarified that (1) nuclear costs are deemed to be recovered up to the amount of FPSC-approved projections and (2) the deferral of unrecovered nuclear costs would accrue a carrying charge at PEF's approved AFUDC rate consistent with the requirements of FPSC's nuclear cost-recovery rule, which is fixed at the pre-tax AFUDC rate in effect as of June 12, 2007. Accordingly, PEF retrospectively assigned capacity revenues to match the FPSC-approved projected level of nuclear cost recovery as of September 30, 2009. Nuclear costs incurred in excess of original projections earn a carrying charge equal to the AFUDC rate. Prior to the FPSC clarification, PEF assigned capacity revenues to nuclear cost recovery based on actual costs incurred; any over- or under-recoveries of actual costs were deferred and earned a carrying charge equal to a commercial paper rate.

On November 19, 2009, the FPSC issued a final order approving the recovery of prudently incurred nuclear costs as a part of PEF's proposed rate management plan. The rate management plan includes the reclassification to the nuclear cost-recovery clause regulatory asset of the 1) \$198 million of capacity revenues and 2) the accelerated amortization of \$76 million of preconstruction costs. The cumulative amount of \$274 million was recorded as a nuclear cost-recovery regulatory asset at December 31, 2009, and is projected to be recovered by 2014.

The FPSC has authorized alternative cost-recovery mechanisms for preconstruction and construction carrying costs of nuclear power plants. Accordingly, at December 31, 2009 and 2008, PEF reflected \$276 million and \$190 million, respectively, of nuclear-related costs as a regulatory asset, of which \$274 million and \$174 million, respectively, represents construction work in progress (See Note 4A). Of the total \$276 million of nuclear-related costs at December 31, 2009, \$275 million related to Levy. The total \$190 million of nuclear-related costs at December 31, 2008, was comprised of \$181 million related to Levy and \$9 million related to the CR3 uprate.

CR3 Uprate

On August 28, 2009, PEF filed a petition with the FPSC to approve a \$17 million base rate increase for the phase II costs associated with the uprate of CR3. PEF's 2009 revenue requirements for recovery of the phase II costs were included in the CCRC. As permitted under the nuclear cost-recovery rule, PEF's phase III costs associated with the CR3 uprate are currently being recovered through the CCRC discussed above. On October 29, 2009, the FPSC Staff recommended that the FPSC approve PEF's request with minor modifications and that the new rates be implemented at the same time as PEF implements new base rates from its rate case proceeding. On October 30, 2009, PEF filed an amended petition requesting this rate change be implemented effective January 1, 2010. On December 1, 2009, the FPSC approved an increase in base rates for residential customers by \$0.57 per 1,000 kWh, or 0.4 percent.

STORM COST RECOVERY

In 2005, the FPSC issued an order authorizing PEF to recover \$232 million over a two-year period, including interest, of the costs it incurred and previously deferred related to PEF's restoration of power associated with four hurricanes in 2004. The net impact was included in customer bills beginning January 1, 2006. In 2007, PEF recorded the remaining amortization of \$75 million associated with the recovery of these storm costs.

During 2006, the FPSC approved a settlement agreement between PEF and certain intervenors in its storm cost-recovery docket that would allow PEF to extend its then-current two-year storm surcharge, which equals approximately \$3.61 on the average residential monthly customer bill of 1,000 kWh, for an additional 12-month period that began August 2007 to replenish its storm reserve. Additionally, the settlement agreement provided that in the event future storms deplete the reserve, PEF would be able to petition the FPSC for implementation of an interim surcharge of at least 80 percent and up to 100 percent of the claimed deficiency of its storm reserve. The intervenors agreed not to oppose the interim recovery of 80 percent of the future claimed deficiency but reserved the right to challenge the interim surcharge recovery of the remaining 20 percent. The FPSC has the right to review PEF's storm costs for prudence. In 2008, PEF recorded net additional storm reserve of \$66 million from the extension of the storm surcharge. The surcharge agreement expired in August 2008. At December 31, 2009 and 2008, PEF's storm reserve totaled \$136 million and \$129 million, respectively.

OTHER MATTERS

On October 29, 2007, PEF submitted a revised OATT filing, including a settlement agreement, with the FERC requesting an increase in transmission rates. The purpose of the filing was to implement formula-based rates for the PEF OATT in order to more accurately reflect the costs that PEF incurs in providing transmission service. In the filing, PEF proposed to move from a fixed rate to a formula-based rate, which allows for transmission rates to be updated each year based on the prior year's actual costs. The settlement was approved by FERC and new rates were implemented on January 1, 2008. On May 15, 2009, PEF filed its annual update to the formula-based OATT rates. The new rates were effective June 1, 2009, and increased 2009 revenues by \$2 million. In addition, one of PEF's large wholesale customers became subject to the new rate structure on September 1, 2009, increasing PEF's 2009 revenues by an additional \$4 million.

On March 20, 2009, PEF filed a petition with the FPSC for expedited approval of the deferral of \$53 million in 2009 pension expense and the authorization to charge \$33 million in estimated 2009 storm hardening expenses to its storm damage reserve. PEF requested that the deferral of pension expense continue until the recovery of these costs is provided for in FPSC-approved base rates. On June 16, 2009, the FPSC denied PEF's request related to the storm hardening expenses, but approved the deferral of the retail portion of actual 2009 pension expense. As a result of the order, PEF deferred pension expense of \$34 million for the year ended December 31, 2009. PEF will not earn a carrying charge on the deferred pension regulatory asset. The deferral of pension expense will not result in a change in PEF's 2009 retail rates or prices. In accordance with the order, subsequent to 2009 PEF will amortize the deferred pension regulatory asset to the extent that annual pension expense is less than the \$27 million allowance provided for in the base rates established in the 2010 base rate proceeding. In the event such amortization is insufficient to fully amortize the regulatory asset, PEF can seek recovery of the remaining unamortized amount in a base rate proceeding no earlier than 2015.

D. NUCLEAR LICENSE RENEWALS

PEC's nuclear units are currently operating under licenses that expire between 2010 and 2026. The NRC has granted PEC 20-year renewals of the licenses for its nuclear units, which extend the operating licenses to expire between 2030 and 2046. The NRC operating license held by PEF for CR3 currently expires in December 2016. On December 18, 2008, PEF filed an application for a 20-year renewal from the NRC on the operating license for CR3, which would extend the operating license through 2036, if approved. PEF anticipates a decision from the NRC in 2011.

8. GOODWILL

Goodwill is required to be tested for impairment at least annually and more frequently when indicators of impairment exist. All of our goodwill is allocated to our utility segments and our goodwill impairment tests are performed at the utility segment level. At December 31, 2009 and 2008, our carrying amount of goodwill was \$3.655 billion, with \$1.922 billion assigned to PEC and \$1.733 billion assigned to PEF. The amounts assigned to PEC and PEF are recorded in our Corporate and Other business segment. We perform our annual impairment test as of April 1 of each year. During the second quarter in 2009, we completed the 2009 annual tests, which indicated the goodwill was not impaired.

9. EQUITY

A. COMMON STOCK

PROGRESS ENERGY

At December 31, 2009 and 2008, we had 500 million shares of common stock authorized under our charter, of which 281 million shares and 264 million shares, respectively, were outstanding. For the years ended December 31, 2009, 2008 and 2007, we issued shares of common stock, primarily under a public offering and to meet the requirements of the Progress Energy 401(k) Savings & Stock Ownership Plan (401(k)) and the Progress Energy Investor Plus Plan (IPP). In addition, we periodically issue shares for our other benefit plans.

The following table presents information for our common stock issuances:

(in millions)	Years Ended December 31,					
	2009		2008		2007	
	Shares	Net Proceeds	Shares	Net Proceeds	Shares	Net Proceeds
Total issuances	17.5	\$623	3.7	\$132	3.7	\$151
Issuances under a public offering	14.4	523	—	—	—	—
Issuances to meet requirements of 401(k) and IPP	2.5	100	3.1	131	1.0	46

The shares issued under a public offering were issued on January 12, 2009, at a public offering price of \$37.50. We used \$100 million of the proceeds to reduce the Parent's revolving credit agreement (RCA) borrowings and the remainder was used for general corporate purposes.

Subsequent to December 31, 2009, the Parent issued approximately 3.6 million shares of common stock resulting in approximately \$136 million in proceeds through the IPP. There are various provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. At December 31, 2009, there were no significant restrictions on the use of retained earnings (See Note 11B).

PEC

At December 31, 2009 and 2008, PEC was authorized to issue up to 200 million shares of common stock. All shares issued and outstanding are held by Progress Energy. There are various provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. At December 31, 2009, there were no significant restrictions on the use of retained earnings. See Note 11B for additional dividend restrictions related to PEC.

PEF

At December 31, 2009 and 2008, PEF was authorized to issue up to 60 million shares of common stock. All PEF common shares issued and outstanding are indirectly held by Progress Energy. There are various provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. At December 31, 2009, there were no significant restrictions on the use of retained earnings. See Note 11B for additional dividend restrictions related to PEF.

B. STOCK-BASED COMPENSATION

EMPLOYEE STOCK OWNERSHIP PLAN

We sponsor the 401(k) for which substantially all full-time nonbargaining unit employees and certain part-time nonbargaining unit employees within participating subsidiaries are eligible. At December 31, 2009 and 2008, participating subsidiaries were PEC, PEF, PVI, Progress Fuels (corporate employees) and PESC. The 401(k), which has a matching feature, 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 share 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 matching and incentive contributions and/or reinvested dividends. All or a portion of the dividends paid on ESOP suspense shares and on ESOP shares allocated to participants may be used to repay ESOP acquisition loans. Dividends that are used to repay such loans, paid directly to participants or reinvested by participants, are deductible for income tax purposes.

There were 0.5 million and 1.1 million ESOP suspense shares at December 31, 2009 and 2008, respectively, with a fair value of \$22 million and \$45 million, respectively. ESOP shares allocated to plan participants totaled 13.0 million and 12.6 million at December 31, 2009 and 2008, respectively. Our matching compensation cost under the 401(k) is determined based on matching percentages 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. We currently meet common stock share needs with open market purchases, with shares released from the ESOP suspense account and with newly issued shares. Costs for the matching component are typically met with shares in the same year incurred. Matching costs, which were met and will be met with shares released from the suspense account, totaled approximately \$13 million, \$8 million and \$23 million for the years ended December 31, 2009, 2008 and 2007, respectively. We have a long-term note receivable from the 401(k) Trustee related to the purchase of common stock from us in 1989. The balance of the note receivable from the 401(k) Trustee is included in the determination of unearned ESOP common stock, which reduces common stock equity. ESOP shares that have not been committed to be released to participants' accounts are not considered outstanding for the determination of earnings per common share. Interest income on the note receivable and dividends on unallocated ESOP shares are not recognized for financial statement purposes.

We also sponsor the Savings Plan for Employees of Florida Progress Corporation which covers bargaining unit employees of PEF.

Total matching cost for both plans was approximately \$41 million, \$38 million and \$34 million for the years ended December 31, 2009, 2008 and 2007, respectively.

PEC

PEC's matching costs, which were met and will be met with shares released from the suspense account, totaled approximately \$8 million, \$5 million and \$14 million for the years ended December 31, 2009, 2008 and 2007, respectively. Total matching cost was approximately \$22 million, \$21 million and \$18 million for the years ended December 31, 2009, 2008 and 2007, respectively.

PEF

PEF's matching costs, which were met and will be met with shares released from the suspense account, totaled approximately \$3 million, \$1 million and \$4 million for the years ended December 31, 2009, 2008 and 2007, respectively. Total matching cost for both plans was approximately \$12 million, \$11 million and \$10 million for the years ended December 31, 2009, 2008 and 2007, respectively.

STOCK OPTIONS

Pursuant to our 1997 Equity Incentive Plan (EIP) and 2002 EIP, amended and restated as of July 10, 2002, we may grant options to purchase shares of Progress Energy common stock to directors, officers and eligible employees for up to 5 million and 15 million shares, respectively. Generally, options granted to officers and employees vest one-third per year with 100 percent vesting at the end of year three, while options granted to directors vest 100 percent at the end of one year. The options expire 10 years from the date of grant. All option grants have an exercise price equal to the fair market value of our common stock on the grant date. We curtailed our stock option program in 2004 and replaced that compensation program with other programs. No stock options have been granted since 2004. We issue new shares of common stock to satisfy the exercise of previously issued stock options.

PROGRESS ENERGY

A summary of the status of our stock options at December 31, 2009, and changes during the year then ended, is presented below:

(option quantities in millions)	Number of Options	Weighted-Average Exercise Price
Options outstanding, January 1	1.6	\$43.99
Canceled	(0.1)	43.76
Exercised	—	—
Options outstanding, December 31	1.5	44.00
Options exercisable, December 31	1.5	44.00

The options outstanding and exercisable at December 31, 2009, had a weighted-average remaining contractual life of 3.03 years. Aggregate intrinsic value as of December 31, 2009, was not significant. The total intrinsic value of options exercised during the years ended December 31, 2009 and 2008, was not significant. Total intrinsic value of options exercised during the year ended December 31, 2007, was \$17 million.

Compensation cost for expense purposes is measured at the grant date based on the fair value of the award and is recognized over the vesting period. All options are fully vested; therefore, no compensation expense was recognized in 2009, 2008 or 2007.

Cash received from the exercise of stock options totaled \$105 million during the year ended December 31, 2007. The actual tax benefit for tax deductions from stock option exercises for the year ended December 31, 2007, was \$6 million. Cash received from the exercise of stock options for the years ended December 31, 2009 and 2008, was not significant.

PEC

All options are fully vested; therefore, no compensation expense was recognized in 2009, 2008 or 2007.

PEF

All options are fully vested; therefore, no compensation expense was recognized in 2009, 2008 or 2007.

OTHER STOCK-BASED COMPENSATION PLANS

We have additional compensation plans for our officers and key employees that are stock-based in whole or in part. Our long-term compensation program currently includes two types of equity-based incentives: performance shares under the Performance Share Sub Plan (PSSP) and restricted stock programs. The compensation program was established pursuant to our 1997 EIP and was continued under our 2002 and 2007 EIPs, as amended and restated from time to time.

We granted cash-settled PSSP awards prior to 2005. Since 2005, we have been granting stock-settled PSSP awards. Under the terms of the PSSP, our officers and key employees are granted a target number of 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 common stock, and dividend equivalents are accrued on, and reinvested in, additional performance shares. Prior to 2007, shares issued under the PSSP (both cash-settled and stock-settled) had two equally weighted performance measures, both based on our results as compared to a peer group of utilities. In 2007, the PSSP was redesigned, and shares issued under the revised plan use one performance measure. In 2009, the PSSP was redesigned again, and shares issued under the revised plan use total shareholder return and earnings growth as two equally weighted performance measures. The outcome of the performance measures can result in an increase or decrease from the target number of performance shares granted. For cash-settled awards, compensation expense is recognized over the vesting period based on the estimated fair value of the award, which is periodically updated to reflect factors such as changes in stock price and the status of performance measures. The stock-settled PSSP is similar to the cash-settled PSSP, except that we distribute common stock shares to participants equivalent to the number of performance shares that ultimately vest. We issue new shares of common stock to satisfy the requirements of the PSSP program. Also, the fair value of the stock-settled award is generally established at the grant date based on the fair value of common stock on that date, with subsequent adjustments made to reflect the status of the performance measure. Compensation expense for all awards is reduced by estimated forfeitures. PSSP cash-settled liabilities paid in the years ended December 31, 2009, 2008 and 2007, were not significant.

A summary of the status of the target performance shares under the stock-settled PSSP plan at December 31, 2009, and changes during the year then ended is presented below:

	Number of Stock-Settled Performance Shares ^(a)	Weighted-Average Grant Date Fair Value
Beginning balance	1,118,604	\$46.46
Granted	328,369	33.80
Vested	(419,366)	44.23
Paid ^(b)	(232,793)	50.55
Forfeited	(16,484)	44.27
Ending balance	778,330	45.49

^(a) Amounts reflect target shares to be issued. The final number of shares issued will be dependent upon the outcome of the performance measures discussed above.

^(b) Shares paid include only target shares as originally granted.

For the years ended December 31, 2008 and 2007, the weighted-average grant date fair value of stock-settled performance shares granted was \$42.41 and \$50.70, respectively.

The Restricted Stock Award program allows us to grant shares of restricted common stock to our officers and key employees. 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, with corresponding increases in common stock equity. Restricted shares are included as shares outstanding in the basic earnings per share calculation.

A summary of the status of the nonvested restricted stock shares at December 31, 2009, and changes during the year then ended, follows:

	Number of Restricted Shares	Weighted-Average Grant Date Fair Value
Beginning balance	192,101	\$43.93
Granted	—	—
Vested	(50,297)	44.06
Forfeited	(6,500)	42.79
Ending balance	135,304	43.94

For the year ended December 31, 2007, the weighted-average grant date fair value of restricted stock granted was \$49.54. There were no restricted stock shares granted in 2008.

The total fair value of restricted stock awards vested during the years ended December 31, 2009, 2008 and 2007, was \$2 million, \$3 million and \$13 million, respectively. No cash was expended to purchase shares for 2009, and cash expended to purchase shares during 2008 and 2007 was not significant due to the curtailment of the Restricted Stock Award program upon the rollout of the restricted stock unit (RSU) program in 2007.

Beginning in 2007, we began issuing RSUs rather than restricted stock awards for our officers, vice presidents, managers and key employees. RSUs awarded to eligible employees are generally subject to either three- or five-year cliff vesting or five-year graded vesting. We issue new shares of common stock to satisfy the requirements of the RSU program. Compensation expense, based on the fair value of common stock at the grant date, is recognized over the applicable vesting period, with corresponding increases in common stock equity. RSUs are included as shares outstanding in the basic earnings per share calculation. Units are converted to shares upon vesting.

A summary of the status of nonvested RSUs at December 31, 2009, and changes during the year then ended, follows:

	Number of Restricted Units	Weighted-Average Grant Date Fair Value
Beginning balance	1,076,536	\$46.86
Granted	644,231	33.91
Vested	(342,723)	47.18
Forfeited	(39,759)	41.54
Ending balance	1,338,285	43.46

The total fair value of RSUs vested during the year ended December 31, 2009, was \$16 million. No cash was expended to purchase stock to satisfy RSU plan obligations in 2009, 2008 and 2007.

Our Consolidated Statements of Income included total recognized expense for other stock-based compensation plans of \$39 million for the year ended December 31, 2009, with a recognized tax benefit of \$15 million. The total expense recognized on our Consolidated Statements of Income for other stock-based compensation plans was \$31 million with a recognized tax benefit of \$12 million and \$64 million, with a recognized tax benefit of \$24 million, for the years ended December 31, 2008 and 2007, respectively. No compensation cost related to other stock-based compensation plans was capitalized.

At December 31, 2009, there was \$31 million of total unrecognized compensation cost related to nonvested other stock-based compensation plan awards, which is expected to be recognized over a weighted-average period of 1.56 years.

PEC

PEC's Consolidated Statements of Income included total recognized expense for other stock-based compensation plans of \$24 million for the year ended December 31, 2009, with a recognized tax benefit of \$9 million. The total expense recognized on PEC's Consolidated Statements of Income for other stock-based compensation plans was \$18 million with a recognized tax benefit of \$7 million and \$38 million, with a recognized tax benefit of \$15 million, for the years ended December 31, 2008 and 2007, respectively. No compensation cost related to other stock-based compensation plans was capitalized.

PEF

PEF's Statements of Income included total recognized expense for other stock-based compensation plans of \$15 million for the year ended December 31, 2009, with a recognized tax benefit of \$6 million. The total expense recognized on PEF's Statements of Income for other stock-based compensation plans was \$13 million with a recognized tax benefit of \$5 million and \$21 million, with a recognized tax benefit of \$8 million, for the years ended December 31, 2008 and 2007, respectively. No compensation cost related to other stock-based compensation plans was capitalized.

C. EARNINGS PER COMMON SHARE

Basic earnings per common share are based on the weighted-average number of common shares outstanding, which includes the effects of unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents. Diluted earnings per share include the effects of the nonvested portion of performance share awards and the effect of stock options outstanding.

A reconciliation of the weighted-average number of common shares outstanding for the years ended December 31 for basic and dilutive purposes follows:

(in millions)	2009	2008	2007
Weighted-average common shares – basic	279.4	261.6	257.3
Net effect of dilutive stock-based compensation plans	0.1	0.1	0.2
Weighted-average shares – fully diluted	279.5	261.7	257.5

There were no adjustments to net income or to income from continuing operations attributable to controlling interests between the calculations of basic and fully diluted earnings per common share. ESOP shares that have not been committed to be released to participants' accounts are not considered outstanding for the determination of earnings per common share. The weighted-average ESOP shares totaled 0.7 million, 1.2 million and 1.8 million for the years ended December 31, 2009, 2008 and 2007, respectively. There were 1.5 million, 1.6 million and 0.1 million stock options outstanding at December 31, 2009, 2008 and 2007, respectively, which were not included in the weighted-average number of shares for computing the fully diluted earnings per share because they were antidilutive.

D. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

Components of accumulated other comprehensive (loss) income, net of tax, at December 31 were as follows:

(in millions)	Progress Energy		PEC		PEF	
	2009	2008	2009	2008	2009	2008
(Loss) gain on cash flow hedges	\$(35)	\$(57)	\$(27)	\$(35)	\$3	\$(1)
Pension and other postretirement benefits	(52)	(58)	–	–	–	–
Other	–	(1)	–	–	–	–
Total accumulated other comprehensive (loss) income	\$(87)	\$(116)	\$(27)	\$(35)	\$3	\$(1)

10. PREFERRED STOCK OF SUBSIDIARIES

All of our preferred stock was issued by the Utilities. The preferred stock is considered temporary equity due to certain provisions that could require us to redeem the preferred stock for cash. In the event dividends payable on PEC or PEF preferred stock are in default an amount equivalent to or exceeding four quarterly dividend payments, the holders of the preferred stock are entitled to elect a majority of PEC or PEF's respective board of directors until all accrued and unpaid dividends are paid. All classes of preferred stock are entitled to cumulative dividends with preference to the common stock dividends, are redeemable by vote of the Utilities' respective board of directors at any time, and do not have any preemptive rights. All classes of preferred stock have a liquidation preference equal to \$100 per share plus any accumulated unpaid dividends except for PEF's 4.75%, \$100 par value class, which does not have a liquidation preference. Each holder of PEC's preferred stock is entitled to one vote. The holders of PEF's preferred stock have no right to vote except for certain circumstances involving dividends payable on preferred stock that are in default or certain matters affecting the rights and preferences of the preferred stock.

At December 31, 2009 and 2008, preferred stock outstanding consisted of the following:

(dollars in millions, except share and per share data)	<u>Shares</u>		Redemption Price	Total
	Authorized	Outstanding		
<i>PEC</i>				
Cumulative, no par value \$5 Preferred Stock	300,000			
\$5 Preferred		236,997	\$110.00	\$24
Cumulative, no par value Serial Preferred Stock	20,000,000			
\$4.20 Serial Preferred		100,000	102.00	10
\$5.44 Serial Preferred		249,850	101.00	25
Cumulative, no par value Preferred Stock A	5,000,000	—	—	—
No par value Preference Stock	10,000,000	—	—	—
Total PEC				59
<i>PEF</i>				
Cumulative, \$100 par value Preferred Stock	4,000,000			
4.00% \$100 par value Preferred		39,980	104.25	4
4.40% \$100 par value Preferred		75,000	102.00	8
4.58% \$100 par value Preferred		99,990	101.00	10
4.60% \$100 par value Preferred		39,997	103.25	4
4.75% \$100 par value Preferred		80,000	102.00	8
Cumulative, no par value Preferred Stock	5,000,000	—	—	—
\$100 par value Preference Stock	1,000,000	—	—	—
Total PEF				34
Total preferred stock of subsidiaries				\$93

11. DEBT AND CREDIT FACILITIES

A. DEBT AND CREDIT FACILITIES

At December 31 our long-term debt consisted of the following (maturities and weighted-average interest rates at December 31, 2009):

(in millions)		2009	2008
Parent			
Senior unsecured notes, maturing 2010-2039	6.50%	\$4,300	\$2,600
Draws on revolving credit agreement, expiring 2012		—	100
Unamortized premium and discount, net		(7)	(4)
Current portion of long-term debt		(100)	—
Long-term debt, net		4,193	2,696
PEC			
First mortgage bonds, maturing 2010-2038	5.60%	2,525	2,325
Pollution control obligations, maturing 2017-2024	0.80%	669	669
Senior unsecured notes, maturing 2012	6.50%	500	500
Miscellaneous notes	6.01%	21	22
Unamortized premium and discount, net		(6)	(7)
Current portion of long-term debt		(6)	—
Long-term debt, net		3,703	3,509
PEF			
First mortgage bonds, maturing 2010-2038	5.81%	3,800	3,800
Pollution control obligations, maturing 2018-2027	0.47%	241	241
Medium-term notes, maturing 2028	6.75%	150	150
Unamortized premium and discount, net		(8)	(9)
Current portion of long-term debt		(300)	—
Long-term debt, net		3,883	4,182
Florida Progress Funding Corporation (See Note 23)			
Debt to affiliated trust, maturing 2039	7.10%	309	309
Unamortized premium and discount, net		(37)	(37)
Long-term debt, net		272	272
Progress Energy consolidated long-term debt, net		\$12,051	\$10,659

On January 15, 2010, the Parent paid at maturity \$100 million of its Series A Floating Rate Notes with proceeds from the \$950 million of Senior Notes issued in November 2009.

On January 12, 2009, the Parent issued 14.4 million shares of common stock at a public offering price of \$37.50 per share. Net proceeds from this offering were \$523 million. We used \$100 million of the proceeds to reduce the Parent's RCA borrowings and the remainder was used for general corporate purposes.

On January 15, 2009, PEC issued \$600 million of First Mortgage Bonds, 5.30% Series due 2019. A portion of the proceeds was used to repay the maturity of PEC's \$400 million 5.95% Senior Notes, due March 1, 2009. The remaining proceeds were used to repay PEC's outstanding short-term debt and for general corporate purposes.

On March 19, 2009, the Parent issued an aggregate \$750 million of Senior Notes consisting of \$300 million of 6.05% Senior Notes due 2014 and \$450 million of 7.05% Senior Notes due 2019. A portion of the proceeds was used to fund PEF's capital expenditures through an equity contribution with the remaining proceeds used for general corporate purposes.

On June 18, 2009, PEC entered into a Seventy-seventh Supplemental Indenture to its Mortgage and Deed of Trust, dated May 1, 1940, as supplemented, in connection with certain amendments to the mortgage. The amendments are

set forth in the Seventy-seventh Supplemental Indenture and include an amendment to extend the maturity date of the mortgage by 100 years. The maturity date of the mortgage is now May 1, 2140.

On November 19, 2009, the Parent issued an aggregate \$950 million of Senior Notes consisting of \$350 million of 4.875% Senior Notes due 2019 and \$600 million of 6.00% Senior Notes due 2039. The proceeds were used to retire at maturity the \$100 million outstanding Series A Floating Rate Notes due January 15, 2010, to repay outstanding commercial paper balances, to prefund a portion of the \$700 million aggregate principal amount due upon maturity of our 7.10% Senior Notes due March 1, 2011, and for general corporate purposes.

At December 31, 2009 and 2008, we had committed lines of credit used to support our commercial paper borrowings. At December 31, 2009, we had no outstanding borrowings under our credit facilities. At December 31, 2008, we had \$600 million of outstanding borrowings under our credit facilities as shown in the following table, of which \$100 million was classified as long-term debt. We are required to pay minimal annual commitment fees to maintain our credit facilities.

The following tables summarize our RCAs and available capacity at December 31:

2009					
(in millions)	Description	Total	Outstanding^(a)	Reserved^(b)	Available
Parent	Five-year (expiring 5/3/12)	\$1,130	\$—	\$177	\$953
PEC	Five-year (expiring 6/28/11)	450	—	—	450
PEF	Five-year (expiring 3/28/11)	450	—	—	450
Total credit facilities		\$2,030	\$—	\$177	\$1,853

2008					
(in millions)	Description	Total	Outstanding^(a)	Reserved^(b)	Available
Parent	Five-year (expiring 5/3/12)	\$1,130	\$ 600	\$99	\$431
PEC	Five-year (expiring 6/28/11)	450	—	110	340
PEF	Five-year (expiring 3/28/11)	450	—	371	79
Total credit facilities		\$2,030	\$ 600	\$580	\$850

^(a) The RCA borrowings outstanding at December 31, 2008, were repaid during 2009.

^(b) To the extent amounts are reserved for commercial paper or letters of credit outstanding, they are not available for additional borrowings. At December 31, 2009 and 2008, the Parent had \$37 million and \$30 million, respectively, of letters of credit issued, which were supported by the RCA. Subsequent to December 31, 2009, the Parent repaid all of its outstanding commercial paper balance with proceeds from the \$950 million November 2009 issuance of Senior Notes.

The RCAs provide liquidity support for issuances of commercial paper and other short-term obligations. Fees and interest rates under Progress Energy's RCA are based upon the credit rating of Progress Energy's long-term unsecured senior noncredit-enhanced debt, currently rated as Baa2/Watch Negative by Moody's Investors Service, Inc. (Moody's) and BBB/Watch Negative by Standard & Poor's Rating Service (S&P). Fees and interest rates under PEC's RCA are based upon the credit rating of PEC's long-term unsecured senior noncredit-enhanced debt, currently rated as A3 by Moody's and BBB+/Watch Negative by S&P. Fees and interest rates under PEF's RCA are based upon the credit rating of PEF's long-term unsecured senior noncredit-enhanced debt, currently rated as A3/Watch Negative by Moody's and BBB+/Watch Negative by S&P.

The following table summarizes short-term debt comprised of the short-term portion of outstanding RCA borrowings and our outstanding commercial paper, and related weighted-average interest rates at December 31:

(in millions)	2009		2008	
Parent	0.49%	\$140	2.81%	\$569
PEC	—	—	4.36%	110
PEF	—	—	4.41%	371
Total	0.49%	\$140	3.54%	\$1,050

The following table presents the aggregate maturities of long-term debt at December 31, 2009:

(in millions)	Progress Energy Consolidated	PEC	PEF
2010	\$406	\$6	\$300
2011	1,000	—	300
2012	950	500	—
2013	825	400	425
2014	300	—	—
Thereafter	9,034	2,809	3,166
Total	\$12,515	\$3,715	\$4,191

B. COVENANTS AND DEFAULT PROVISIONS

FINANCIAL COVENANTS

The Parent's, PEC's and PEF's credit lines contain various terms and conditions that could affect the ability to borrow under these facilities. All of the credit facilities include a defined maximum total debt to total capital ratio (leverage). At December 31, 2009, the maximum and calculated ratios for the Progress Registrants, pursuant to the terms of the agreements, were as follows:

Company	Maximum Ratio	Actual Ratio ^(a)
Parent	68%	58%
PEC	65%	44%
PEF	65%	51%

^(a) Indebtedness as defined by the bank agreements includes certain letters of credit and guarantees not recorded on the Consolidated Balance Sheets.

CROSS-DEFAULT PROVISIONS

Each of these credit agreements contains cross-default provisions for defaults of indebtedness in excess of the following thresholds: \$50 million for the Parent and \$35 million each for PEC and PEF. Under these provisions, if the applicable borrower or certain subsidiaries of the borrower fail to pay various debt obligations in excess of their respective cross-default threshold, the lenders of that credit facility could accelerate payment of any outstanding borrowing and terminate their commitments to the credit facility. The Parent's cross-default provision can be triggered by the Parent and its significant subsidiaries, as defined in the credit agreement. PEC's and PEF's cross-default provisions can be triggered only by defaults of indebtedness by PEC and its subsidiaries and PEF, respectively, not each other or other affiliates of PEC and PEF.

Additionally, certain of the Parent's long-term debt indentures contain cross-default provisions for defaults of indebtedness in excess of amounts ranging from \$25 million to \$50 million; these provisions apply only to other obligations of the Parent, primarily commercial paper issued by the Parent, not its subsidiaries. In the event that these indenture cross-default provisions are triggered, the debt holders could accelerate payment of approximately \$4.3 billion in long-term debt. Certain agreements underlying our indebtedness also limit our ability to incur additional liens or engage in certain types of sale and leaseback transactions.

OTHER RESTRICTIONS

Neither the Parent's Articles of Incorporation nor any of its debt obligations contain any restrictions on the payment of dividends, so long as no shares of preferred stock are outstanding. At December 31, 2009, the Parent had no shares of preferred stock outstanding.

Certain documents restrict the payment of dividends by the Parent's subsidiaries as outlined below.

PEC

PEC's mortgage indenture provides that, as long as any first mortgage bonds are outstanding, cash dividends and distributions on its common stock and purchases of its common stock are restricted to aggregate net income available for PEC since December 31, 1948, plus \$3 million, less the amount of all preferred stock dividends and distributions, and all common stock purchases, since December 31, 1948. At December 31, 2009, none of PEC's cash dividends or distributions on common stock was restricted.

In addition, PEC's Articles of Incorporation provide that so long as any shares of preferred stock are outstanding, the aggregate amount of cash dividends or distributions on common stock since December 31, 1945, including the amount then proposed to be expended, shall be limited to 75 percent of the aggregate net income available for common stock if common stock equity falls below 25 percent of total capitalization, and to 50 percent if common stock equity falls below 20 percent. PEC's Articles of Incorporation also provide that cash dividends on common stock shall be limited to 75 percent of the current year's net income available for dividends if common stock equity falls below 25 percent of total capitalization, and to 50 percent if common stock equity falls below 20 percent. At December 31, 2009, PEC's common stock equity was approximately 55.3 percent of total capitalization. At December 31, 2009, none of PEC's cash dividends or distributions on common stock was restricted.

PEF

PEF's mortgage indenture provides that as long as any first mortgage bonds are outstanding, 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 PEF subsequent to December 31, 1943. At December 31, 2009, none of PEF's cash dividends or distributions on common stock was restricted.

In addition, PEF's Articles of Incorporation provide that so long as any shares of preferred stock are outstanding, 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, exceeds all credits to retained earnings since April 30, 1944, plus all amounts credited to capital surplus after April 30, 1944, arising from the donation to PEF of cash or securities or transfers of amounts from retained earnings to capital surplus. PEF's Articles of Incorporation also provide that cash dividends on common stock shall be limited to 75 percent of the current year's net income available for dividends if common stock equity falls below 25 percent of total capitalization, and to 50 percent if common stock equity falls below 20 percent. On December 31, 2009, PEF's common stock equity was approximately 53.4 percent of total capitalization. At December 31, 2009, none of PEF's cash dividends or distributions on common stock was restricted.

C. COLLATERALIZED OBLIGATIONS

PEC's and PEF's first mortgage bonds are collateralized by their respective mortgage indentures. Each mortgage constitutes a first lien on substantially all of the fixed properties of the respective company, subject to certain permitted encumbrances and exceptions. Each mortgage also constitutes a lien on subsequently acquired property. At December 31, 2009, PEC and PEF had a total of \$3.194 billion and \$4.041 billion, respectively, of first mortgage bonds outstanding, including those related to pollution control obligations. Each mortgage allows the issuance of additional mortgage bonds upon the satisfaction of certain conditions.

D. GUARANTEES OF SUBSIDIARY DEBT

See Note 18 on related party transactions for a discussion of obligations guaranteed or secured by affiliates.

E. HEDGING ACTIVITIES

We use interest rate derivatives to adjust the fixed and variable rate components of our debt portfolio and to hedge cash flow risk related to commercial paper and fixed-rate debt to be issued in the future. See Note 17 for a discussion of risk management activities and derivative transactions.

12. INVESTMENTS

A. INVESTMENTS

At December 31, 2009 and 2008, we had investments in various debt and equity securities, cost investments, company-owned life insurance and investments held in trust funds as follows:

(in millions)	Progress Energy		PEC		PEF	
	2009	2008	2009	2008	2009	2008
Nuclear decommissioning trust (See Notes 4C and 13)	\$1,367	\$1,089	\$871	\$672	\$496	\$417
Equity method investments ^(a)	18	22	5	9	2	2
Cost investments ^(b)	5	7	4	3	—	—
Company-owned life insurance ^(c)	45	49	35	34	—	—
Benefit investment trusts ^(d)	191	184	90	85	35	30
Marketable debt securities	—	1	—	1	—	—
Total	\$1,626	\$1,352	\$1,005	\$804	\$533	\$449

(a) Investments in unconsolidated companies are accounted for using the equity method of accounting (See Note 1) and are included in miscellaneous other property and investments in the Consolidated Balance Sheets. These investments are primarily in limited liability corporations and limited partnerships, and the earnings from these investments are recorded on a pre-tax basis.

(b) Investments stated principally at cost are included in miscellaneous other property and investments in the Consolidated Balance Sheets.

(c) Investments in company-owned life insurance approximate fair value due to the nature of the investment and are included in miscellaneous other property and investments in the Consolidated Balance Sheets.

(d) Benefit investment trusts are included in miscellaneous other property and investments in the Consolidated Balance Sheets. At December 2009 and 2008, \$152 million and \$142 million, respectively, of investments in company-owned life insurance were held in Progress Energy's trusts. Substantially all of PEC's and PEF's benefit investment trusts are invested in company-owned life insurance.

B. IMPAIRMENT OF INVESTMENTS

We evaluate declines in value of investments under the criteria of GAAP. Declines in fair value to below the cost basis judged to be other than temporary on available-for-sale securities are included in long-term regulatory liabilities on the Consolidated Balance Sheets for securities held in our nuclear decommissioning trust funds and in operation and maintenance expense and other, net on the Consolidated Statements of Income for securities in our benefit investment trusts, other available-for-sale securities and equity and cost method investments. See Note 13 for additional information. There were no material other-than-temporary impairments in 2009, 2008 or 2007.

13. FAIR VALUE DISCLOSURES

A. DEBT AND INVESTMENTS

PROGRESS ENERGY

DEBT

The carrying amount of our long-term debt, including current maturities, was \$12.457 billion and \$10.659 billion at December 31, 2009 and 2008, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was \$13.4 billion and \$11.3 billion at December 31, 2009 and 2008, respectively.

INVESTMENTS

Certain investments in debt and equity securities that have readily determinable market values are accounted for as available-for-sale securities at fair value. Our available-for-sale securities include investments in stocks, bonds and cash equivalents held in trust funds, pursuant to NRC requirements, to fund certain costs of decommissioning the Utilities' nuclear plants (See Note 4C). NDT funds are presented on the Consolidated Balance Sheets at fair value. In addition to the NDT funds, we hold other debt investments classified as available-for-sale, which are included in miscellaneous other property and investments on the Consolidated Balance Sheets at fair value.

The following table summarizes our available-for-sale securities at December 31, 2009 and 2008.

2009			
(in millions)	Unrealized Losses	Unrealized Gains	Estimated Fair Value
Equity securities	\$(22)	\$306	\$855
Corporate debt securities	(1)	5	71
U.S. state and municipal debt securities	(2)	3	118
U.S. and foreign government debt securities	(1)	8	197
Money market funds and other securities	—	—	161
Total	\$(26)	\$322	\$1,402
2008			
(in millions)	Unrealized Losses	Unrealized Gains	Estimated Fair Value
Equity securities	\$(93)	\$134	\$559
Corporate debt securities	(5)	—	53
U.S. state and municipal debt securities	(19)	4	233
U.S. and foreign government debt securities	(2)	11	171
Money market funds and other securities	(1)	—	123
Total	\$(120)	\$149	\$1,139

The NDT funds and other available-for-sale debt investments held in certain benefit trusts are managed by third-party investment managers who have a right to sell securities without our authorization. Net unrealized gains and losses of the NDT funds that would be recorded in earnings or other comprehensive income by a nonregulated entity are recorded as regulatory assets and liabilities (See Note 7A) pursuant to ratemaking treatment. Therefore, the preceding tables include the unrealized gains and losses for the NDT funds based on the original cost of the trust investments; all of the unrealized losses and unrealized gains for 2009, and \$118 million of the unrealized losses and \$148 million of the unrealized gains for 2008, relate to the NDT funds. There were no material unrealized losses for the other available-for-sale debt securities held in benefit trusts at December 31, 2009 and 2008.

The aggregate fair value of investments that related to the 2009 and 2008 unrealized losses was \$209 million and \$374 million, respectively.

At December 31, 2009, the fair value of available-for-sale debt securities by contractual maturity was:

(in millions)	
Due in one year or less	\$12
Due after one through five years	180
Due after five through 10 years	122
Due after 10 years	84
Total	\$398

The following table presents selected information about our sales of available-for-sale securities during the years ended December 31. Realized gains and losses were determined on a specific identification basis.

(in millions)	2009	2008	2007
Proceeds	\$1,275	\$1,092	\$1,334
Realized gains	26	29	35
Realized losses	87	86	23

Previously, we invested available cash balances in various financial instruments, such as tax-exempt debt securities. For the year ended December 31, 2007, our proceeds from the sale of these securities were \$399 million. For the years ended December 31, 2009 and 2008, our proceeds were primarily related to nuclear decommissioning trusts. Some of our benefit investment trusts are managed by third-party investment managers who have the right to sell securities without our authorization. Losses at December 31, 2009, 2008 and 2007 for investments in these benefit investment trusts were not material. Other securities are evaluated on an individual basis to determine if a decline in fair value below the carrying value is other-than-temporary (See Note 1D). At December 31, 2009 and 2008, our other securities had no investments in a continuous loss position for greater than 12 months.

PEC

DEBT

The carrying amount of PEC's long-term debt, including current maturities, was \$3.709 billion and \$3.509 billion at December 31, 2009 and 2008, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was \$4.0 billion and \$3.7 billion at December 31, 2009 and 2008, respectively.

INVESTMENTS

Certain investments in debt and equity securities that have readily determinable market values are accounted for as available-for-sale securities at fair value. PEC's available-for-sale securities include investments in stocks, bonds and cash equivalents held in trust funds, pursuant to NRC requirements, to fund certain costs of decommissioning PEC's nuclear plants (See Note 4C). NDT funds are presented on the Consolidated Balance Sheets at fair value.

The following table summarizes PEC's available-for-sale securities at December 31, 2009 and 2008.

2009			
(in millions)	Unrealized Losses	Unrealized Gains	Estimated Fair Value
Equity securities	\$(19)	\$189	\$555
Corporate debt securities	(1)	4	67
U.S. state and municipal debt securities	—	1	37
U.S. and foreign government debt securities	(1)	8	177
Money market funds and other securities	—	—	35
Total	\$(21)	\$202	\$871
2008			
(in millions)	Unrealized Losses	Unrealized Gains	Estimated Fair Value
Equity securities	\$(55)	\$75	\$334
Corporate debt securities	(2)	—	37
U.S. state and municipal debt securities	(6)	1	61
U.S. and foreign government debt securities	(1)	10	146
Money market funds and other securities	(1)	—	111
Total	\$(65)	\$86	\$689

The NDT funds are managed by third-party investment managers who have a right to sell securities without our authorization. Net unrealized gains and losses of the NDT funds that would be recorded in earnings or other comprehensive income by a nonregulated entity are recorded as regulatory assets and liabilities (See Note 7A) pursuant to ratemaking treatment. Therefore, the preceding tables include the unrealized gains and losses for the NDT funds based on the original cost of the trust investments. All of the unrealized losses and gains for 2009 and 2008 relate to the NDT funds.

The aggregate fair value of investments that related to the 2009 and 2008 unrealized losses was \$121 million and \$191 million, respectively.

At December 31, 2009, the fair value of available-for-sale debt securities by contractual maturity was:

(in millions)	
Due in one year or less	\$8
Due after one through five years	142
Due after five through 10 years	93
Due after 10 years	44
Total	\$287

The following table presents selected information about PEC's sales of available-for-sale securities during the years ended December 31. Realized gains and losses were determined on a specific identification basis.

(in millions)	2009	2008	2007
Proceeds	\$602	\$579	\$609
Realized gains	9	12	12
Realized losses	36	48	13

PEC's proceeds were primarily related to NDT funds. Other securities are evaluated on an individual basis to determine if a decline in fair value below the carrying value is other-than-temporary (See Note 1D). At December 31, 2009 and 2008, PEC did not have any other securities.

PEF**DEBT**

The carrying amount of PEF's long-term debt, including current maturities, was \$4.183 billion and \$4.182 billion at December 31, 2009 and 2008, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was \$4.5 billion at December 31, 2009 and 2008.

INVESTMENTS

Certain investments in debt and equity securities that have readily determinable market values are accounted for as available-for-sale securities at fair value. PEF's available-for-sale securities include investments in stocks, bonds and cash equivalents held in trust funds, pursuant to NRC requirements, to fund certain costs of decommissioning PEF's nuclear plant (See Note 4C). The NDT funds are presented on the Balance Sheets at fair value.

The following table summarizes PEF's available-for-sale securities at December 31, 2009 and 2008.

2009			
(in millions)	Unrealized Losses	Unrealized Gains	Estimated Fair Value
Equity securities	\$(3)	\$117	\$300
Corporate debt securities	—	1	4
U.S. state and municipal debt securities	(2)	2	80
U.S. and foreign government debt securities	—	—	13
Money market funds and other securities	—	—	99
Total	\$(5)	\$120	\$496
2008			
(in millions)	Unrealized Losses	Unrealized Gains	Estimated Fair Value
Equity securities	\$(38)	\$59	\$225
Corporate debt securities	(2)	—	7
U.S. state and municipal debt securities	(13)	3	168
U.S. and foreign government debt securities	—	—	1
Money market funds and other securities	—	—	10
Total	\$(53)	\$62	\$411

The NDT funds are managed by third-party investment managers who have a right to sell securities without our authorization. Net unrealized gains and losses of the NDT funds that would be recorded in earnings or other comprehensive income by a nonregulated entity are recorded as regulatory assets and liabilities (See Note 7A) pursuant to ratemaking treatment. Therefore, the preceding tables include unrealized gains and losses for the NDT funds based on the original cost of the trust investments. All of the unrealized losses and gains for 2009 and 2008 relate to the NDT funds.

The aggregate fair value of investments that related to the 2009 and 2008 unrealized losses was \$56 million and \$165 million, respectively.

At December 31, 2009, the fair value of available-for-sale debt securities by contractual maturity was:

(in millions)	
Due in one year or less	\$4
Due after one through five years	35
Due after five through 10 years	27
Due after 10 years	33
Total	\$99

The following table presents selected information about PEF's sales of available-for-sale securities for the years ended December 31. Realized gains and losses were determined on a specific identification basis.

(in millions)	2009	2008	2007
Proceeds	\$559	\$394	\$535
Realized gains	14	16	22
Realized losses	50	36	9

Previously, PEF invested available cash balances in various financial instruments, such as tax-exempt debt securities. For the year ended December 31, 2007, PEF's proceeds from the sale of these securities were \$329 million. For the years ended December 31, 2009 and 2008, all of PEF's proceeds were related to NDT. Other securities are evaluated on an individual basis to determine if a decline in fair value below the carrying value is other-than-temporary (See Note 1D). At December 31, 2009 and 2008, PEF did not have any other securities.

B. FAIR VALUE MEASUREMENTS

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). Fair value measurements require the use of market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, corroborated by market data, or generally unobservable. Valuation techniques are required to maximize the use of observable inputs and minimize the use of unobservable inputs. A midmarket pricing convention (the midpoint price between bid and ask prices) is permitted for use as a practical expedient.

GAAP also establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, and requires fair value measurements to be categorized based on the observability of those inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy are as follows:

Level 1 – The pricing inputs are unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives and listed equities.

Level 2 – The pricing inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 includes financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives, such as over-the-counter forwards, swaps and options; certain marketable debt securities; and financial instruments traded in less than active markets.

Level 3 – The pricing inputs include significant inputs generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments may include longer-term instruments that extend into periods where quoted prices or other observable inputs are not available.

The following tables set forth, by level within the fair value hierarchy, our and the Utilities' financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Progress Energy

(in millions)	Level 1	Level 2	Level 3	Total
Assets				
Nuclear decommissioning trust funds				
Equity	\$855	\$—	\$—	\$855
Corporate debt	—	71	—	71
U.S. state and municipal debt	—	117	—	117
U.S. and foreign government debt	62	128	—	190
Money market funds and other	1	133	—	134
Total nuclear decommissioning trust funds	918	449	—	1,367
Commodity and interest rate derivatives	—	39	—	39
Other marketable securities				
U.S. state and municipal debt	—	1	—	1
U.S. and foreign government debt	—	7	—	7
Money market and other	16	27	—	43
Total assets	\$934	\$523	\$—	\$1,457
Liabilities				
Commodity and interest rate derivatives	\$—	\$(386)	\$(39)	\$(425)
CVO derivatives	—	(15)	—	(15)
Total liabilities	\$—	\$(401)	\$(39)	\$(440)

PEC

(in millions)	Level 1	Level 2	Level 3	Total
Assets				
Nuclear decommissioning trust funds				
Equity	\$555	\$—	\$—	\$555
Corporate debt	—	67	—	67
U.S. state and municipal debt	—	37	—	37
U.S. and foreign government debt	52	125	—	177
Money market and other	1	34	—	35
Total nuclear decommissioning trust funds	608	263	—	871
Commodity and interest rate derivatives	—	8	—	8
Other marketable securities	1	—	—	1
Total assets	\$609	\$271	\$—	\$880
Liabilities				
Commodity and interest rate derivatives	\$—	\$(63)	\$(27)	\$(90)

PEF

(in millions)	Level 1	Level 2	Level 3	Total
Assets				
Nuclear decommissioning trust funds				
Equity	\$300	\$—	\$—	\$300
Corporate debt	—	4	—	4
U.S. state and municipal debt	—	80	—	80
U.S. and foreign government debt	10	3	—	13
Money market funds and other	—	99	—	99
Total nuclear decommissioning trust funds	310	186	—	496
Commodity and interest rate derivatives	—	25	—	25
Other marketable securities	1	—	—	1
Total assets	\$311	\$211	\$—	\$522
Liabilities				
Commodity and interest rate derivatives	\$—	\$(323)	\$(12)	\$(335)

The determination of the fair values above incorporates various factors, including risks of nonperformance by us or our counterparties. Such risks consider not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits or letters of credit), but also the impact of our and the Utilities' credit risk on our liabilities.

Commodity and interest rate derivatives reflect positions held by us and the Utilities. Most over-the-counter commodity and interest rate derivatives are valued using financial models which utilize observable inputs for similar instruments and are classified within Level 2. Other derivatives are valued utilizing inputs that are not observable for substantially the full term of the contract, or for which the impact of the unobservable period is significant to the fair value of the derivative. Such derivatives are classified within Level 3. See Note 17 for discussion of risk management activities and derivative transactions.

NDT funds reflect the assets of the Utilities' nuclear decommissioning trusts. The assets of the trusts are invested primarily in exchange-traded equity securities (classified within Level 1) and marketable debt securities, most of which are valued using Level 1 inputs for similar instruments and are classified within Level 2.

Other marketable securities primarily represent available-for-sale debt securities used to fund certain employee benefit costs.

We issued Contingent Value Obligations (CVOs) in connection with the acquisition of Florida Progress, as discussed in Note 15. The CVOs are derivatives recorded at fair value based on quoted prices from a less-than-active market and are classified as Level 2.

The following tables set forth a reconciliation of changes in the fair value of our and the Utilities' commodity derivatives classified as Level 3 in the fair value hierarchy for the 12 months ended December 31, 2009.

Progress Energy	
(in millions)	
Derivatives, net at January 1, 2009	\$(41)
Total gains (losses), realized and unrealized	
Included in earnings	—
Included in other comprehensive income	—
Deferred as regulatory assets and liabilities, net	(13)
Purchases, issuances and settlements, net	—
Transfers in (out) of Level 3, net	15
Derivatives, net at December 31, 2009	\$(39)

PEC

(in millions)

Derivatives, net at January 1, 2009	\$(22)
Total gains (losses), realized and unrealized	
Included in earnings	-
Included in other comprehensive income	-
Deferred as regulatory assets and liabilities, net	(7)
Purchases, issuances and settlements, net	-
Transfers in (out) of Level 3, net	2
Derivatives, net at December 31, 2009	\$(27)

PEF

(in millions)

Derivatives, net at January 1, 2009	\$(19)
Total gains (losses), realized and unrealized	
Included in earnings	-
Included in other comprehensive income	-
Deferred as regulatory assets and liabilities, net	(6)
Purchases, issuances and settlements, net	-
Transfers in (out) of Level 3, net	13
Derivatives, net at December 31, 2009	\$(12)

Substantially all unrealized gains and losses on derivatives are deferred as regulatory liabilities or assets consistent with ratemaking treatment.

Transfers in (out) of Level 3 represent existing assets or liabilities that were previously categorized as a higher level for which the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 for which the lowest significant input became observable during the period. Transfers into Level 3 are measured at the beginning of the period, and transfers out of Level 3 are measured at the end of the period.

14. INCOME TAXES

We provide deferred income taxes for temporary differences between book and tax carrying amounts 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. To the extent that the establishment of deferred income taxes is different from the recovery of taxes by the Utilities through the ratemaking process, the differences are deferred pursuant to GAAP for regulated operations. A regulatory asset or liability has been recognized for the impact of tax expenses or benefits that are recovered or refunded in different periods by the Utilities pursuant to rate orders. We accrue for uncertain tax positions when it is determined that it is more likely than not that the benefit will not be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, the tax benefit recognized is measured at the largest amount that, in our judgment, is greater than 50 percent likely to be realized.

PROGRESS ENERGY

Accumulated deferred income tax assets (liabilities) at December 31 were:

(in millions)	2009	2008
Deferred income tax assets		
ARO liability	\$127	\$264
Derivative instruments	159	298
Income taxes refundable through future rates	225	111
Pension and other postretirement benefits	508	544
Other	374	340
Federal income tax credit carry forward	712	802
State net operating loss carry forward (net of federal expense)	66	64
Valuation allowance	(55)	(55)
Total deferred income tax assets	2,116	2,368
Deferred income tax liabilities		
Accumulated depreciation and property cost differences	(1,889)	(1,665)
Deferred fuel recovery	(74)	(186)
Income taxes recoverable through future rates	(782)	(959)
Other	(264)	(141)
Total deferred income tax liabilities	(3,009)	(2,951)
Total net deferred income tax liabilities	\$(893)	\$(583)

The above amounts were classified on the Consolidated Balance Sheets as follows:

(in millions)	2009	2008
Current deferred income tax assets, included in prepayments and other current assets	\$168	\$96
Noncurrent deferred income tax assets, included in other assets and deferred debits	37	32
Current deferred income tax liabilities, included in other current liabilities	–	(1)
Noncurrent deferred income tax liabilities, included in noncurrent income tax liabilities	(1,098)	(710)
Total net deferred income tax liabilities	\$(893)	\$(583)

At December 31, 2009, the federal income tax credit carry forward includes \$712 million of alternative minimum tax credits that do not expire.

At December 31, 2009, we had gross state net operating loss carry forwards of \$1.6 billion that will expire during the period 2010 through 2029.

Valuation allowances have been established due to the uncertainty of realizing certain future state tax benefits. We had a net increase of less than \$1 million in our valuation allowances during 2009.

We believe 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.

Reconciliations of our effective income tax rate to the statutory federal income tax rate for the years ended December 31 follow:

	2009	2008	2007
Effective income tax rate	32.1%	33.7%	32.3%
State income taxes, net of federal benefit	(3.7)	(3.8)	(2.8)
Investment tax credit amortization	0.8	1.0	1.1
Employee stock ownership plan dividends	1.0	1.0	1.1
Domestic manufacturing deduction	0.8	0.3	1.0
AFUDC equity	2.2	2.5	0.7
Other differences, net	1.8	0.3	1.6
Statutory federal income tax rate	35.0%	35.0%	35.0%

Income tax expense applicable to continuing operations for the years ended December 31 was comprised of:

(in millions)	2009	2008	2007
Current – federal	\$227	\$38	\$285
– state	41	12	36
Deferred – federal	114	305	13
– state	25	49	11
Investment tax credit	(10)	(12)	(12)
State net operating loss carry forward	–	(6)	1
Beginning-of-the-year valuation allowance change	–	9	–
Total income tax expense	\$397	\$395	\$334

We previously recorded a deferred income tax asset for a state net operating loss carry forward upon the sale of PVI's nonregulated generation facilities and energy marketing and trading operations. During 2008, we recorded an additional deferred income tax asset of \$6 million related to the state net operating loss carry forward due to a change in estimate based on 2007 tax return filings. During 2008 we also evaluated this state net operating loss carry forward and recorded a partial valuation allowance of \$9 million.

Total income tax expense applicable to continuing operations excluded the following:

- Taxes related to discontinued operations recorded net of tax for 2009, 2008 and 2007, which are presented separately in Notes 3A through 3E.
- Taxes related to other comprehensive income recorded net of tax for 2009, 2008 and 2007, which are presented separately in the Consolidated Statements of Comprehensive Income.
- Current tax benefit of \$6 million, which was recorded in common stock during 2007, related to excess tax deductions resulting from vesting of restricted stock awards, vesting of RSUs, vesting of stock-settled PSSP awards and exercises of nonqualified stock options pursuant to the terms of our EIP. No net current tax benefit was recorded in common stock during 2009 and 2008.
- Taxes of \$2 million and \$4 million that reduced retained earnings and increased regulatory assets, respectively, due to the cumulative effect of adopting new guidance for uncertain tax positions on January 1, 2007.

At December 31, 2009, 2008 and 2007, our liability for unrecognized tax benefits was \$160 million, \$104 million and \$93 million, respectively. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate for income from continuing operations was \$9 million, \$8 million and \$10 million, respectively, at December 31, 2009, 2008 and 2007. The following table presents the changes to unrecognized tax benefits during the years ended December 31, 2009, 2008 and 2007:

(in millions)	2009	2008	2007
Unrecognized tax benefits at beginning of period	\$104	\$93	\$126
Gross amounts of increases as a result of tax positions taken in a prior period	11	17	32
Gross amounts of decreases as a result of tax positions taken in a prior period	(3)	(11)	(41)
Gross amounts of increases as a result of tax positions taken in the current period	52	8	22
Gross amounts of decreases as a result of tax positions taken in the current period	(4)	(2)	(32)
Amounts of net increases (decreases) relating to settlements with taxing authorities	—	1	(14)
Reductions as a result of a lapse of the applicable statute of limitations	—	(2)	—
Unrecognized tax benefits at end of period	\$160	\$104	\$93

We and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Our open federal tax years are from 2004 forward, and our open state tax years in our major jurisdictions are generally from 2003 forward. The IRS is currently examining our federal tax returns for years 2004 through 2005. We cannot predict when the review will be completed. Although the timing for completion of the IRS' review is uncertain, it is reasonably possible that unrecognized tax benefits will decrease by up to approximately \$60 million during the 12-month period ending December 31, 2010, due to expected settlements. Any potential decrease will not have a material impact on our results of operations.

We include interest expense related to unrecognized tax benefits in interest charges and we include penalties in other, net on the Consolidated Statements of Income. During 2009, 2008 and 2007, the net interest expense related to unrecognized tax benefits was \$9 million, \$4 million and \$1 million, respectively, of which a respective \$5 million, \$1 million and \$15 million expense component was deferred as a regulatory asset by PEF, which is amortized as a charge to interest expense over a three-year period or less. During 2008, PEF charged the unamortized balance of the regulatory asset to interest expense. During 2009 and 2007, there were no penalties related to unrecognized tax benefits. During 2008, less than \$1 million was recorded for penalties related to unrecognized tax benefits. At December 31, 2009 and 2008, we had accrued \$36 million and \$27 million, respectively, for interest and penalties, which are included in interest accrued and other liabilities and deferred credits on the Consolidated Balance Sheets.

PEC

Accumulated deferred income tax assets (liabilities) at December 31 were:

(in millions)	2009	2008
Deferred income tax assets		
ARO liability	\$111	\$244
Derivative instruments	37	64
Income taxes refundable through future rates	106	10
Pension and other postretirement benefits	254	262
Other	149	108
Total deferred income tax assets	657	688
Deferred income tax liabilities		
Accumulated depreciation and property cost differences	(1,307)	(1,162)
Deferred fuel recovery	(60)	(132)
Income taxes recoverable through future rates	(377)	(451)
Investments	(71)	(8)
Other	(8)	(12)
Total deferred income tax liabilities	(1,823)	(1,765)
Total net deferred income tax liabilities	\$(1,166)	\$(1,077)

The above amounts were classified on the Consolidated Balance Sheets as follows:

(in millions)	2009	2008
Current deferred income tax assets, included in prepayments and other current assets	\$42	\$–
Current deferred income tax liabilities, included in other current liabilities	–	(5)
Noncurrent deferred income tax liabilities, included in noncurrent income tax liabilities	(1,208)	(1,072)
Total net deferred income tax liabilities	\$(1,166)	\$(1,077)

Reconciliations of PEC's effective income tax rate to the statutory federal income tax rate for the years ended December 31 follow:

	2009	2008	2007
Effective income tax rate	35.0%	35.8%	37.1%
State income taxes, net of federal benefit	(2.8)	(2.7)	(2.3)
Investment tax credit amortization	0.7	0.7	0.7
Domestic manufacturing deduction	0.9	0.5	1.1
Other differences, net	1.2	0.7	(1.6)
Statutory federal income tax rate	35.0%	35.0%	35.0%

Income tax expense for the years ended December 31 was comprised of:

(in millions)	2009	2008	2007
Current – federal	\$192	\$87	\$235
– state	21	7	19
Deferred – federal	57	181	34
– state	13	29	13
Investment tax credit	(6)	(6)	(6)
Total income tax expense	\$277	\$298	\$295

Total income tax expense excluded the following:

- Taxes related to other comprehensive income recorded net of tax for 2009, 2008 and 2007, which are presented separately in the Consolidated Statements of Comprehensive Income.
- Current tax benefit of \$3 million, which was recorded in common stock during 2007, related to excess tax deductions resulting from vesting of restricted stock awards, vesting of RSUs, vesting of stock-settled PSSP awards and exercises of nonqualified stock options pursuant to the terms of our EIP. No net current tax benefit was recorded in common stock during 2009 and 2008.
- Taxes of \$6 million that reduced retained earnings, due to the cumulative effect of adopting new guidance for uncertain tax positions on January 1, 2007.

PEC and each of its wholly owned subsidiaries have entered into the Tax Agreement with the Parent (See Note 1D). PEC's intercompany tax receivable was approximately \$38 million and \$74 million at December 31, 2009 and 2008, respectively.

At December 31, 2009, 2008 and 2007, PEC's liability for unrecognized tax benefits was \$59 million, \$38 million and \$41 million, respectively. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$5 million, \$5 million and \$9 million, respectively, at December 31, 2009, 2008 and 2007. The following table presents the changes to unrecognized tax benefits during the years ended December 31, 2009, 2008 and 2007:

(in millions)	2009	2008	2007
Unrecognized tax benefits at beginning of period	\$38	\$41	\$43
Gross amounts of increases as a result of tax positions taken in a prior period	6	5	3
Gross amounts of decreases as a result of tax positions taken in a prior period	(2)	(10)	(15)
Gross amounts of increases as a result of tax positions taken in the current period	17	4	22
Gross amounts of decreases as a result of tax positions taken in the current period	—	(1)	(5)
Amounts of net increases (decreases) relating to settlements with taxing authorities	—	1	(7)
Reductions as a result of a lapse of the applicable statute of limitations	—	(2)	—
Unrecognized tax benefits at end of period	\$59	\$38	\$41

We file consolidated federal and state income tax returns that include PEC. In addition, PEC files stand-alone tax returns in various state jurisdictions. PEC's open federal tax years are from 2004 forward, and PEC's open state tax years in our major jurisdictions are generally from 2003 forward. The IRS is currently examining our federal tax returns for years 2004 through 2005. PEC cannot predict when the review will be completed. Although the timing for completion of the IRS' review is uncertain, it is reasonably possible that PEC's unrecognized tax benefits will decrease by up to approximately \$10 million during the 12-month period ending December 31, 2010, due to expected settlements. Any potential decrease will not have a material impact on PEC's results of operations.

PEC includes interest expense related to unrecognized tax benefits in interest charges and includes penalties in other, net on the Consolidated Statements of Income. During 2009 the interest expense recorded related to unrecognized tax benefits was \$3 million. During 2008 and 2007, the interest benefit recorded related to unrecognized tax benefits was \$1 million and \$4 million, respectively. During 2009, 2008 and 2007, there were no penalties recorded related to unrecognized tax benefits. At December 31, 2009 and 2008, PEC had accrued \$10 million and \$7 million, respectively, for interest and penalties, which are included in interest accrued and other liabilities and deferred credits on the Consolidated Balance Sheets.

PEF

Accumulated deferred income tax assets (liabilities) at December 31 were:

(in millions)	2009	2008
Deferred income tax assets		
Derivative instruments	\$125	\$222
Income taxes refundable through future rates	73	54
Pension and other postretirement benefits	163	192
Reserve for storm damage	52	54
Unbilled revenue	48	43
Other	89	101
Total deferred income tax assets	550	666
Deferred income tax liabilities		
Accumulated depreciation and property cost differences	(568)	(490)
Deferred fuel recovery	(14)	(54)
Deferred nuclear cost recovery	(107)	(73)
Income taxes recoverable through future rates	(406)	(508)
Investments	(44)	(3)
Other	(26)	(36)
Total deferred income tax liabilities	(1,165)	(1,164)
Total net deferred income tax liabilities	\$(615)	\$(498)

The above amounts were classified on the Balance Sheets as follows:

(in millions)	2009	2008
Current deferred income tax assets, included in deferred income taxes	\$115	\$74
Noncurrent deferred income tax liabilities, included in noncurrent income tax liabilities	(730)	(572)
Total net deferred income tax liabilities	\$(615)	\$(498)

Reconciliations of PEF's effective income tax rate to the statutory federal income tax rate for the years ended December 31 follow:

	2009	2008	2007
Effective income tax rate	31.1%	32.0%	31.2%
State income taxes, net of federal benefit	(3.0)	(3.1)	(3.3)
Investment tax credit amortization	0.7	1.1	1.3
Domestic manufacturing deduction	0.8	0.2	0.8
AFUDC equity	3.4	5.4	2.6
Other differences, net	2.0	(0.6)	2.4
Statutory federal income tax rate	35.0%	35.0%	35.0%

Income tax expense for the years ended December 31 was comprised of:

(in millions)	2009	2008	2007
Current – federal	\$125	\$39	\$160
– state	20	12	28
Deferred – federal	57	121	(33)
– state	11	15	(5)
Investment tax credit	(4)	(6)	(6)
Total income tax expense	\$209	\$181	\$144

Total income tax expense excluded the following:

- Taxes related to other comprehensive income recorded net of tax for 2009, 2008 and 2007, which are presented separately in the Statements of Comprehensive Income.
- Less than \$1 million of current tax benefit, which was recorded in common stock during 2007, related to excess tax deductions resulting from vesting of restricted stock awards and exercises of nonqualified stock options pursuant to the terms of our EIP. No net current tax benefit was recorded in common stock during 2009 and 2008.
- Taxes of less than \$1 million and \$4 million that reduced retained earnings and increased regulatory assets, respectively, due to the cumulative effect of adopting new guidance for uncertain tax positions on January 1, 2007.

PEF has entered into the Tax Agreement with the Parent (See Note 1D). PEF's intercompany tax receivable was approximately \$122 million and \$47 million at December 31, 2009 and 2008, respectively.

At December 31, 2009, 2008 and 2007, PEF's liability for unrecognized tax benefits was \$98 million, \$62 million and \$55 million, respectively. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$3 million, \$2 million and \$3 million, respectively, at December 31, 2009, 2008 and 2007. The following table presents the changes to unrecognized tax benefits during the years ended December 31, 2009, 2008 and 2007:

(in millions)	2009	2008	2007
Unrecognized tax benefits at beginning of period	\$62	\$55	\$72
Gross amounts of increases as a result of tax positions taken in a prior period	5	6	23
Gross amounts of decreases as a result of tax positions taken in a prior period	(1)	(1)	(4)
Gross amounts of increases as a result of tax positions taken in the current period	35	3	2
Gross amounts of decreases as a result of tax positions taken in the current period	(3)	(1)	(25)
Amounts of decreases relating to settlements with taxing authorities	—	—	(13)
Reductions as a result of a lapse of the applicable statute of limitations	—	—	—
Unrecognized tax benefits at end of period	\$98	\$62	\$55

We file consolidated federal and state income tax returns that include PEF. PEF's open federal tax years are from 2004 forward and PEF's open state tax years are generally from 2003 forward. The IRS is currently examining our federal tax returns for years 2004 through 2005. PEF cannot predict when the review will be completed. Although the timing for completion of the IRS' review is uncertain, it is reasonably possible that PEF's unrecognized tax benefits will decrease by up to approximately \$50 million during the 12-month period ending December 31, 2010, due to expected settlements. Any potential decrease will not have a material impact on PEF's results of operations.

Pursuant to a regulatory order, PEF records interest expense related to unrecognized tax benefits as a regulatory asset, which is amortized over a three-year period or less, with the amortization included in interest charges on the Statements of Income. During 2008, PEF charged the unamortized balance of the regulatory asset to interest expense on the Statement of Income. Penalties are included in other, net on the Statements of Income. During 2009, 2008 and 2007, interest expense recorded as a regulatory asset was \$5 million, \$1 million and \$15 million, respectively, and there were no penalties recorded related to unrecognized tax benefits. At December 31, 2009 and 2008, PEF had accrued \$24 million and \$19 million, respectively, for interest and penalties, which are included in interest accrued and other assets and deferred debits on the Balance Sheets.

15. CONTINGENT VALUE OBLIGATIONS

In connection with the acquisition of Florida Progress during 2000, the Parent issued 98.6 million CVOs. Each CVO represents the right of the holder to receive contingent payments based on the performance of four coal-based solid synthetic fuels limited liability companies, of which three were wholly owned (Earthco), purchased by subsidiaries of Florida Progress in October 1999. All of our synthetic fuels businesses were abandoned and all operations ceased as of December 31, 2007 (See Note 3A). The payments are based on the net after-tax cash flows the facilities generate. We will make deposits into a CVO trust for estimated contingent payments due to CVO holders based on the results of operations and the utilization of tax credits. Monies held in the trust are generally not payable to the CVO holders until the completion of income tax audits. The CVOs are derivatives and are recorded at fair value. The unrealized loss/gain recognized due to changes in fair value is recorded in other, net on the Consolidated Statements of Income (See Note 20). At December 31, 2009 and 2008, the CVO liability included in other liabilities and deferred credits on our Consolidated Balance Sheets was \$15 million and \$34 million, respectively.

During the year ended December 31, 2008, a \$6 million deposit was made into the CVO trust for the CVO holders' share of the disposition proceeds from the sale of one of the Earthco synthetic fuels facilities (See Note 3E). Disposition proceeds payments will not generally be made to CVO holders until the termination of all indemnity obligations under the purchase and sale agreement related to the disposition. Future payments will include principal and interest earned during the investment period net of expenses deducted. The interest earned on the payments held in trust for 2009 and 2008 was insignificant. The asset is included in other assets and deferred debits on the Consolidated Balance Sheet at December 31, 2009 and 2008.

16. BENEFIT PLANS

A. POSTRETIREMENT BENEFITS

We have noncontributory defined benefit retirement plans that provide pension benefits for substantially all full-time employees. We also have supplementary defined benefit pension plans that provide benefits to higher-level employees. In addition to pension benefits, we provide contributory other postretirement benefits (OPEB), including certain health care and life insurance benefits, for retired employees who meet specified criteria. We use a measurement date of December 31 for our pension and OPEB plans.

COSTS OF BENEFIT PLANS

Prior service costs and benefits are amortized on a straight-line basis over the average remaining service period of active participants. Actuarial gains and losses in excess of 10 percent of the greater of the projected benefit obligation or the market-related value of assets are amortized over the average remaining service period of active participants.

To determine the market-related value of assets, we use a five-year averaging method for a portion of the pension assets and fair value for the remaining portion. We have historically used the five-year averaging method. When we acquired Florida Progress in 2000, we retained the Florida Progress historical use of fair value to determine market-related value for Florida Progress pension assets.

The tables below provide the components of the net periodic benefit cost for 2009, 2008 and 2007. A portion of net periodic benefit cost is capitalized as part of construction work in progress.

Progress Energy

(in millions)	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Service cost	\$42	\$46	\$46	\$7	\$8	\$7
Interest cost	138	128	123	31	34	32
Expected return on plan assets	(133)	(170)	(155)	(4)	(6)	(6)
Amortization of actuarial loss ^(a)	54	8	15	1	1	2
Other amortization, net ^(a)	6	2	2	5	5	5
Net periodic cost before deferral ^(b)	\$107	\$14	\$31	\$40	\$42	\$40

^(a) Adjusted to reflect PEF's rate treatment (See Note 16B).

^(b) In June 2009, PEF received permission from the FPSC to defer the retail portion of certain pension expense in 2009. The FPSC order did not change the total net periodic pension cost, but defers a portion of these costs to be recovered in future periods. During 2009, PEF deferred \$34 million of net periodic pension cost as a regulatory asset (see Note 7C).

PEC

(in millions)	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Service cost	\$18	\$23	\$23	\$5	\$5	\$5
Interest cost	64	58	56	16	17	15
Expected return on plan assets	(67)	(66)	(60)	(2)	(4)	(4)
Amortization of actuarial loss	11	6	12	—	—	—
Other amortization, net	6	2	2	1	1	1
Net periodic cost	\$32	\$23	\$33	\$20	\$19	\$17

PEF

(in millions)	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Service cost	\$19	\$17	\$16	\$2	\$2	\$2
Interest cost	56	53	52	13	14	14
Expected return on plan assets	(56)	(90)	(84)	(1)	(1)	(1)
Amortization of actuarial loss	38	1	1	—	1	2
Other amortization, net	—	(1)	(1)	3	3	3
Net periodic cost (benefit) before deferral ^(a)	\$57	\$(20)	\$(16)	\$17	\$19	\$20

^(a) In June 2009, PEF received permission from the FPSC to defer the retail portion of certain pension expense in 2009. The FPSC order did not change the total net periodic pension cost, but defers a portion of these costs to be recovered in future periods. During 2009, PEF deferred \$34 million of net periodic pension cost as a regulatory asset (see Note 7C).

The tables below provide a summary of amounts recognized in other comprehensive income and other comprehensive income reclassification adjustments for amounts included in net income, for 2009, 2008 and 2007. The tables also include comparable items that affected regulatory assets of PEC and PEF. For PEC and PEF, amounts that would otherwise be recorded in other comprehensive income are recorded as adjustments to regulatory assets consistent with the recovery of the related costs through the ratemaking process.

Progress Energy

(in millions)	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Other comprehensive income (loss)						
Recognized for the year						
Net actuarial (loss) gain	\$ (1)	\$ (64)	\$ 24	\$ 4	\$ (8)	\$ 16
Other, net	—	(6)	(1)	—	—	—
Reclassification adjustments						
Net actuarial loss	5	1	2	1	—	—
Other, net	—	1	1	1	—	—
Regulatory asset (increase) decrease						
Recognized for the year						
Net actuarial gain (loss)	10	(735)	66	64	(73)	82
Other, net	(3)	(36)	(8)	—	—	—
Amortized to income ^(a)						
Net actuarial loss	49	7	13	—	1	2
Other, net	6	1	1	4	5	4

^(a) These amounts were amortized as a component of net periodic cost, as reflected in the previous net periodic cost table. Refer to that table for information regarding the deferral of a portion of net periodic pension cost.

PEC

(in millions)	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Regulatory asset (increase) decrease						
Recognized for the year						
Net actuarial (loss) gain	\$ (14)	\$ (308)	\$ 26	\$ 38	\$ (66)	\$ 82
Other, net	(2)	(31)	(6)	—	—	—
Amortized to net income						
Net actuarial loss	11	6	12	—	—	—
Other, net	6	2	2	1	1	1

PEF

(in millions)	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Regulatory asset (increase) decrease						
Recognized for the year						
Net actuarial gain (loss)	\$ 24	\$ (427)	\$ 40	\$ 26	\$ (6)	\$ —
Other, net	(1)	(5)	(1)	—	—	—
Amortized to net income ^(a)						
Net actuarial loss	38	1	1	—	1	2
Other, net	—	(1)	(1)	3	3	3

^(a) These amounts were amortized as a component of net periodic cost, as reflected in the previous net periodic cost table. Refer to that table for information regarding the deferral of a portion of net periodic pension cost.

The following weighted-average actuarial assumptions were used by Progress Energy in the calculation of its net periodic cost:

	Pension Benefits			Other Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Discount rate	6.30%	6.20%	5.95%	6.20%	6.20%	5.95%
Rate of increase in future compensation						
Bargaining	4.25%	4.25%	4.25%	—	—	—
Supplementary plans	5.25%	5.25%	5.25%	—	—	—
Expected long-term rate of return on plan assets	8.75%	9.00%	9.00%	6.80%	8.10%	7.70%

The weighted-average actuarial assumptions used by PEC and PEF were not materially different from the assumptions above, as applicable, except that the expected long-term rate of return on OPEB plan assets was 5.00% for PEF for all years presented and for PEC was 8.75%, 9.00% and 9.00% for 2009, 2008 and 2007, respectively.

The expected long-term rates of return on plan assets were determined by considering long-term projected returns based on the plans' target asset allocations. Specifically, return rates were developed for each major asset class and weighted based on the target asset allocations. The projected returns were benchmarked against historical returns for reasonableness. We decreased our expected long-term rate of return on pension assets by 0.25% in 2009, primarily due to the uncertainties resulting from the severe capital market deterioration in 2008. See the "Assets of Benefit Plans" section below for additional information regarding our investment policies and strategies.

BENEFIT OBLIGATIONS AND ACCRUED COSTS

GAAP requires us to recognize in our statement of financial condition the funded status of our pension and other postretirement benefit plans, measured as the difference between the fair value of the plan assets and the benefit obligation as of the end of the fiscal year.

Reconciliations of the changes in the Progress Registrants' benefit obligations and the funded status as of December 31, 2009 and 2008 are presented in the tables below, with each table followed by related supplementary information.

Progress Energy

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Projected benefit obligation at January 1	\$2,234	\$2,142	\$608	\$541
Service cost	42	46	7	8
Interest cost	138	128	31	34
Settlements	(9)	—	—	—
Benefit payments	(124)	(127)	(40)	(35)
Plan amendment	3	42	—	—
Actuarial loss (gain)	138	3	(63)	60
Obligation at December 31	2,422	2,234	543	608
Fair value of plan assets at December 31	1,673	1,285	55	52
Funded status	\$(749)	\$(949)	\$(488)	\$(556)

All defined benefit pension plans had accumulated benefit obligations in excess of plan assets, with projected benefit obligations totaling \$2.422 billion and \$2.234 billion at December 31, 2009 and 2008, respectively. Those plans had accumulated benefit obligations totaling \$2.378 billion and \$2.196 billion at December 31, 2009 and 2008, respectively, and plan assets of \$1.673 billion and \$1.285 billion at December 31, 2009 and 2008, respectively.

The accrued benefit costs reflected in the Consolidated Balance Sheets at December 31 were as follows:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Current liabilities	(9)	(10)	\$–	\$(1)
Noncurrent liabilities	(740)	(939)	(488)	(555)
Funded status	\$(749)	\$(949)	\$(488)	\$(556)

The table below provides a summary of amounts not yet recognized as a component of net periodic cost, as of December 31.

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Recognized in accumulated other comprehensive loss				
Net actuarial loss (gain)	\$83	\$87	\$(5)	\$–
Other, net	10	11	–	–
Recognized in regulatory assets, net				
Net actuarial loss	806	865	32	97
Other, net	59	62	14	18
Total not yet recognized as a component of net periodic cost ^(a)	\$958	\$1,025	\$41	\$115

^(a) All components are adjusted to reflect PEF's rate treatment (See Note 16B).

The following table presents the amounts we expect to recognize as components of net periodic cost in 2010.

(in millions)	Pension Benefits	Other Postretirement Benefits
Amortization of actuarial loss ^(a)	\$50	\$1
Amortization of other, net ^(a)	6	5

^(a) Adjusted to reflect PEF's rate treatment (See Note 16B).

PEC

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Projected benefit obligation at January 1	\$1,025	\$980	\$312	\$257
Service cost	18	23	5	5
Interest cost	64	58	16	17
Plan amendment	2	31	–	–
Benefit payments	(50)	(55)	(17)	(15)
Actuarial loss (gain)	61	(12)	(34)	48
Obligation at December 31	1,120	1,025	282	312
Fair value of plan assets at December 31	749	521	21	22
Funded status	\$(371)	\$(504)	\$(261)	\$(290)

All defined benefit pension plans had accumulated benefit obligations in excess of plan assets, with projected benefit obligations totaling \$1.120 billion and \$1.025 billion at December 31, 2009 and 2008, respectively. Those plans had accumulated benefit obligations totaling \$1.116 billion and \$1.021 billion at December 31, 2009 and 2008, respectively, and plan assets of \$749 million and \$521 million at December 31, 2009 and 2008, respectively.

The accrued benefit costs reflected in the Consolidated Balance Sheets at December 31 were as follows:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Current liabilities	\$(2)	\$(2)	\$ –	\$ –
Noncurrent liabilities	(369)	(502)	(261)	(290)
Funded status	\$(371)	\$(504)	\$(261)	\$(290)

The table below provides a summary of amounts not yet recognized as a component of net periodic cost, as of December 31.

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Recognized in regulatory assets				
Net actuarial loss	\$410	\$407	\$16	\$54
Other, net	54	57	3	4
Total not yet recognized as a component of net periodic cost	\$464	\$464	\$19	\$58

The following table presents the amounts PEC expects to recognize as components of net periodic cost in 2010.

(in millions)	Pension Benefits	Other Postretirement Benefits
Amortization of actuarial loss	\$16	\$–
Amortization of other, net	6	1

PEF

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Projected benefit obligation at January 1	\$914	\$881	\$248	\$245
Service cost	19	17	2	2
Interest cost	56	53	13	14
Plan amendment	–	5	–	–
Benefit payments	(58)	(58)	(20)	(18)
Actuarial loss (gain)	61	16	(24)	5
Obligation at December 31	992	914	219	248
Fair value of plan assets at December 31	794	650	32	27
Funded status	\$(198)	\$(264)	\$(187)	\$(221)

All defined benefit pension plans had accumulated benefit obligations in excess of plan assets, with projected benefit obligations totaling \$992 million and \$914 million at December 31, 2009 and 2008, respectively. Those plans had accumulated benefit obligations totaling \$957 million and \$884 million at December 31, 2009 and 2008, respectively, and plan assets of \$794 million and \$650 million at December 31, 2009 and 2008, respectively.

The accrued benefit costs reflected in the Consolidated Balance Sheets at December 31 were as follows:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Current liabilities	\$(3)	\$(3)	\$–	\$–
Noncurrent liabilities	(195)	(261)	(187)	(221)
Funded status	\$(198)	\$(264)	\$(187)	\$(221)

The table below provides a summary of amounts not yet recognized as a component of net periodic cost, as of December 31.

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Recognized in regulatory assets, net				
Net actuarial loss	\$396	\$458	\$16	\$43
Other, net	5	5	11	14
Total not yet recognized as a component of net periodic cost	\$401	\$463	\$27	\$57

The following table presents the amounts PEF expects to recognize as components of net periodic cost in 2010.

(in millions)	Pension Benefits	Other Postretirement Benefits
Amortization of actuarial loss	\$30	\$1
Amortization of other, net	—	4

The following weighted-average actuarial assumptions were used in the calculation of our year-end obligations:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Discount rate	6.00%	6.30%	6.05%	6.20%
Rate of increase in future compensation				
Bargaining	4.50%	4.25%	—	—
Supplementary plans	5.25%	5.25%	—	—
Initial medical cost trend rate for pre-Medicare Act benefits	—	—	8.50%	9.00%
Initial medical cost trend rate for post-Medicare Act benefits	—	—	8.50%	9.00%
Ultimate medical cost trend rate	—	—	5.00%	5.00%
Year ultimate medical cost trend rate is achieved	—	—	2016	2016

The weighted-average actuarial assumptions for PEC and PEF were the same or were not significantly different from those indicated above, as applicable. The rates of increase in future compensation include the effects of cost of living adjustments and promotions.

Our primary defined benefit retirement plan for nonbargaining employees is a “cash balance” pension plan. Therefore, we use the traditional unit credit method for purposes of measuring the benefit obligation of this plan. Under the traditional unit credit method, no assumptions are included about future changes in compensation, and the accumulated benefit obligation and projected benefit obligation are the same.

MEDICAL COST TREND RATE SENSITIVITY

The medical cost trend rates were assumed to decrease gradually from the initial rates to the ultimate rates. The effects of a 1 percent change in the medical cost trend rate are shown below.

(in millions)	Progress Energy	PEC	PEF
1 percent increase in medical cost trend rate			
Effect on total of service and interest cost	\$2	\$1	\$1
Effect on postretirement benefit obligation	26	14	11
1 percent decrease in medical cost trend rate			
Effect on total of service and interest cost	(1)	(1)	—
Effect on postretirement benefit obligation	(21)	(11)	(9)

ASSETS OF BENEFIT PLANS

In the plan asset reconciliation tables that follow, our, PEC's and PEF's employer contributions for 2009 include contributions directly to pension plan assets of \$222 million, \$163 million and \$58 million, respectively, and for 2008 include contributions directly to pension plan assets of \$33 million, \$24 million and less than \$1 million, respectively. Substantially all of the remaining employer contributions represent benefit payments made directly from the Progress Registrants' assets. The OPEB benefit payments presented in the plan asset reconciliation tables that follow represent the cost after participant contributions. Participant contributions represent approximately 20 percent of gross benefit payments for Progress Energy, 25 percent for PEC and 15 percent for PEF. The OPEB benefit payments are also reduced by prescription drug-related federal subsidies received. In 2009, the subsidies totaled \$3 million for us, \$1 million for PEC and \$1 million for PEF. In 2008, the subsidies totaled \$3 million for us, \$1 million for PEC and \$2 million for PEF.

Reconciliations of the fair value of plan assets at December 31 follow:

<i>Progress Energy</i>				
	Pension Benefits		Other Postretirement Benefits	
(in millions)	2009	2008	2009	2008
Fair value of plan assets at January 1	\$1,285	\$1,996	\$52	\$75
Actual return on plan assets	279	(627)	9	(16)
Benefit payments, including settlements	(133)	(127)	(40)	(35)
Employer contributions	242	43	34	28
Fair value of plan assets at December 31	\$1,673	\$1,285	\$55	\$52

<i>PEC</i>				
	Pension Benefits		Other Postretirement Benefits	
(in millions)	2009	2008	2009	2008
Fair value of plan assets at January 1	\$521	\$805	\$22	\$44
Actual return on plan assets	113	(255)	5	(14)
Benefit payments	(50)	(55)	(17)	(15)
Employer contributions	165	26	11	7
Fair value of plan assets at December 31	\$749	\$521	\$21	\$22

<i>PEF</i>				
	Pension Benefits		Other Postretirement Benefits	
(in millions)	2009	2008	2009	2008
Fair value of plan assets at January 1	\$650	\$1,026	\$27	\$26
Actual return on plan assets	141	(321)	3	—
Benefit payments	(58)	(58)	(20)	(18)
Employer contributions	61	3	22	19
Fair value of plan assets at December 31	\$794	\$650	\$32	\$27

The Progress Registrants' primary objectives when setting investment policies and strategies are to manage the assets of the pension plan to ensure that sufficient funds are available at all times to finance promised benefits and to invest the funds such that contributions are minimized, within acceptable risk limits. We periodically perform studies to analyze various aspects of our pension plans including asset allocations, expected portfolio return, pension contributions and net funded status. One of our key investment objectives is to achieve a rolling 10-year annual return of 6 percent over the rate of inflation. The target pension asset allocations are 40 percent domestic equity, 20 percent international equity, 10 percent domestic fixed income, 15 percent global fixed income, 10 percent private equity and timber and 5 percent hedge funds. Tactical shifts (plus or minus 5 percent) in asset allocation from the target allocations are made based on the near-term view of the risk and return tradeoffs of the asset classes. Domestic equity includes investments across large, medium and small capitalized domestic stocks, using investment managers with value, growth and core-based investment strategies. International equity includes investments in foreign stocks in both developed and emerging market countries, using a mix of value and growth based investment strategies. Domestic fixed income primarily includes domestic investment grade fixed income investments. Global

fixed income includes domestic and foreign fixed income investments. A substantial portion of OPEB plan assets are managed with pension assets. The remaining OPEB plan assets, representing all PEF's OPEB plan assets, are invested in domestic governmental securities.

PROGRESS ENERGY

The following table sets forth by level within the fair value hierarchy of our pension and other postretirement plan assets as of December 31, 2009. See Note 13 for detailed information regarding the fair value hierarchy.

(in millions)	Pension Benefit Plan Assets			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$1	\$96	\$—	\$97
Domestic equity securities	263	1	—	264
Private equity securities	—	—	122	122
Corporate bonds	—	67	—	67
U.S. state and municipal debt	—	4	—	4
U.S. and foreign government debt	25	95	—	120
Mortgage backed securities	—	22	—	22
Commingled funds	—	888	—	888
Hedge funds	—	47	2	49
Timber investments	—	—	14	14
Credit default swaps	—	20	—	20
Interest rate swaps and other investments	—	36	—	36
Total assets	\$289	\$1,276	\$138	\$1,703
Liabilities				
Foreign currency contracts	(5)	—	—	(5)
Credit default swaps	—	(20)	—	(20)
Interest rate swaps and other investments	—	(5)	—	(5)
Total liabilities	(5)	(25)	—	(30)
Fair value of plan assets	\$284	\$1,251	\$138	\$1,673

(in millions)	Other Postretirement Benefit Plan Assets			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$—	\$1	\$—	\$1
Domestic equity securities	4	—	—	4
Corporate bonds	—	1	—	1
U.S. state and municipal debt	—	32	—	32
U.S. and foreign government debt	—	2	—	2
Commingled funds	—	13	—	13
Hedge funds	—	1	—	1
Interest rate swaps and other investments	—	1	—	1
Fair value of plan assets	\$4	\$51	\$—	\$55

The following table sets forth a reconciliation of changes in the fair value of our pension plan assets classified as Level 3 in the fair value hierarchy for the year ended December 31, 2009.

(in millions)	Private Equity Securities	Hedge Funds	Timber Investments	Total
Balance at January 1	\$111	\$2	\$18	\$131
Net realized and unrealized (losses) ^(a)	(10)	—	(4)	(14)
Purchases, sales and distributions, net	21	—	—	21
Balance at December 31	\$122	\$2	\$14	\$138

^(a) Substantially all amounts relate to investments held at December 31, 2009.

PEC

The following table sets forth by level within the fair value hierarchy of PEC's pension and other postretirement plan assets as of December 31, 2009. See Note 13 for detailed information regarding the fair value hierarchy.

(in millions)	Pension Benefit Plan Assets			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$—	\$43	\$—	\$43
Domestic equity securities	118	—	—	118
Private equity securities	—	—	55	55
Corporate bonds	—	30	—	30
U.S. state and municipal debt	—	2	—	2
U.S. and foreign government debt	11	43	—	54
Mortgage backed securities	—	10	—	10
Commingled funds	—	398	—	398
Hedge funds	—	21	1	22
Timber investments	—	—	6	6
Credit default swaps	—	9	—	9
Interest rate swaps and other investments	—	15	—	15
Total assets	\$129	\$571	\$62	\$762
Liabilities				
Foreign currency contracts	(2)	—	—	(2)
Credit default swaps	—	(9)	—	(9)
Interest rate swaps and other investments	—	(2)	—	(2)
Total liabilities	(2)	(11)	—	(13)
Fair value of plan assets	\$127	\$560	\$62	\$749

(in millions)	Other Postretirement Benefit Plan Assets			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$—	\$1	\$—	\$1
Domestic equity securities	4	—	—	4
Corporate bonds	—	1	—	1
U.S. and foreign government debt	—	2	—	2
Commingled funds	—	12	—	12
Hedge funds	—	1	—	1
Fair value of plan assets	\$4	\$17	\$—	\$21

The following table sets forth a reconciliation of changes in the fair value of PEC's pension plan assets classified as Level 3 in the fair value hierarchy for the year ended December 31, 2009.

(in millions)	Private Equity Securities	Hedge Funds	Timber Investments	Total
Balance at January 1	\$49	\$1	\$8	\$58
Net realized and unrealized (losses) ^(a)	(4)	—	(2)	(6)
Purchases, sales and distributions, net	10	—	—	10
Balance at December 31	\$55	\$1	\$6	\$62

^(a) Substantially all amounts relate to investments held at December 31, 2009.

PEF

The following table sets forth by level within the fair value hierarchy of PEF's pension plan assets as of December 31, 2009. See Note 13 for detailed information regarding the fair value hierarchy.

	Pension Benefit Plan Assets			
(in millions)	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$—	\$46	\$—	\$46
Domestic equity securities	125	—	—	125
Private equity securities	—	—	58	58
Corporate bonds	—	32	—	32
U.S. state and municipal debt	—	2	—	2
U.S. and foreign government debt	12	45	—	57
Mortgage backed securities	—	10	—	10
Commingled funds	—	421	—	421
Hedge funds	—	22	1	23
Timber investments	—	—	7	7
Credit default swaps	—	9	—	9
Interest rate swaps and other investments	—	17	—	17
Total assets	\$137	\$604	\$66	\$807
Liabilities				
Foreign currency contracts	(2)	—	—	(2)
Credit default swaps	—	(9)	—	(9)
Interest rate swaps and other investments	—	(2)	—	(2)
Total liabilities	(2)	(11)	—	(13)
Fair value of plan assets	\$135	\$593	\$66	\$794

PEF's other postretirement benefit plan assets had a fair value of \$32 million which consisted of U.S. state and municipal assets classified as Level 2 in the fair value hierarchy as of December 31, 2009.

The following table sets forth a reconciliation of changes in the fair value of PEF's pension plan assets classified as Level 3 in the fair value hierarchy for the year ended December 31, 2009.

(in millions)	Private Equity Securities	Hedge Funds	Timber Investments	Total
Balance at January 1	\$53	\$1	\$9	\$63
Net realized and unrealized (losses) ^(a)	(5)	—	(2)	(7)
Purchases, sales and distributions, net	10	—	—	10
Balance at December 31	\$58	\$1	\$7	\$66

^(a) Substantially all amounts relate to investments held at December 31, 2009.

For Progress Energy, PEC and PEF, the determination of the fair values of pension and postretirement plan assets incorporates various factors required under GAAP. The assets of the plan include exchange traded securities (classified within Level 1) and other marketable debt and equity securities, most of which are valued using Level 1 inputs for similar instruments, and are classified within Level 2 investments.

Most over-the-counter investments are valued using observable inputs for similar instruments or prices from similar transactions and are classified as Level 2. Over-the-counter investments where significant unobservable inputs are used, such as financial pricing models, are classified as Level 3 investments.

Investments in private equity are valued using observable inputs, when available, and also include comparable market transactions, income and cost basis valuation techniques. The market approach includes using comparable market transactions or values. The income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. Private equity investments are classified as Level 3 investments.

Investments in commingled funds are not publically traded, but the underlying assets held in these funds are traded in active markets and the prices for these assets are readily observable. Holdings in commingled funds are classified as Level 2 investments.

Investments in timber are valued primarily on valuations prepared by independent property appraisers. These appraisals are based on cash flow analysis, current market capitalization rates, recent comparable sales transactions, actual sales negotiations and bona fide purchase offers. Inputs include the species, age, volume and condition of timber stands growing on the land; the location, productivity, capacity and accessibility of the timber tracts; current and expected log prices; and current local prices for comparable investments. Timber investments are classified as Level 3 investments.

Hedge funds are based primarily on the net asset values and other financial information provided by management of the private investment funds. Hedge funds are classified as Level 2 if the plan is able to redeem the investment with the investee at net asset value as of the measurement date, or at a later date within a reasonable period of time. Hedge funds are classified as Level 3 if the investment cannot be redeemed at net asset value or it cannot be determined when the fund will be redeemed.

CONTRIBUTION AND BENEFIT PAYMENT EXPECTATIONS

In 2010, we expect to make \$120 million of contributions directly to pension plan assets and \$1 million of discretionary contributions directly to the OPEB plan assets. The expected benefit payments for the pension benefit plan for 2010 through 2014 and in total for 2015 through 2019, in millions, are approximately \$158, \$161, \$167, \$170, \$178 and \$961, respectively. The expected benefit payments for the OPEB plan for 2010 through 2014 and in total for 2015 through 2019, in millions, are approximately \$37, \$40, \$42, \$45, \$46 and \$251, respectively. The expected benefit payments include benefit payments directly from plan assets and benefit payments directly from our assets. The benefit payment amounts reflect our net cost after any participant contributions and do not reflect reductions for expected prescription drug-related federal subsidies. The expected federal subsidies for 2010 through 2014 and in total for 2015 through 2019, in millions, are approximately \$4, \$4, \$5, \$5, \$6 and \$40, respectively.

In 2010, PEC expects to make \$85 million in contributions directly to pension plan assets. The expected benefit payments for the pension benefit plan for 2010 through 2014 and in total for 2015 through 2019, in millions, are approximately \$80, \$81, \$84, \$84, \$90 and \$462, respectively. The expected benefit payments for the OPEB plan for 2010 through 2014 and in total for 2015 through 2019, in millions, are approximately \$17, \$18, \$20, \$22, \$23 and \$133, respectively. The expected benefit payments include benefit payments directly from plan assets and benefit payments directly from PEC assets. The benefit payment amounts reflect the net cost to PEC after any participant contributions and do not reflect reductions for expected prescription drug-related federal subsidies. The expected federal subsidies for 2010 through 2014 and in total for 2015 through 2019, in millions, are approximately \$2, \$2, \$2, \$3, \$3 and \$21, respectively.

In 2010, PEF expects to make \$35 million in contributions directly to pension plan assets and expects to make \$1 million of discretionary contributions to OPEB plan assets. The expected benefit payments for the pension benefit plan for 2010 through 2014 and in total for 2015 through 2019, in millions, are approximately \$59, \$60, \$62, \$64, \$66 and \$376, respectively. The expected benefit payments for the OPEB plan for 2010 through 2014 and in total for 2015 through 2019, in millions, are approximately \$18, \$19, \$19, \$19, \$20 and \$98, respectively. The expected benefit payments include benefit payments directly from plan assets and benefit payments directly from PEF's assets. The benefit payment amounts reflect the net cost to PEF after any participant contributions and do not reflect reductions for expected prescription drug-related federal subsidies. The expected federal subsidies for 2010 through 2014 and in total for 2015 through 2019, in millions, are approximately \$2, \$2, \$2, \$2, \$3 and \$15, respectively.

B. FLORIDA PROGRESS ACQUISITION

During 2000, we completed our acquisition of Florida Progress. Florida Progress' pension and OPEB liabilities, assets and net periodic costs are reflected in the above information as appropriate. Certain of Florida Progress' nonbargaining unit benefit plans were merged with our benefit plans effective January 1, 2002.

PEF continues to recover qualified plan pension costs and OPEB costs in rates as if the acquisition had not occurred. The information presented in Note 16A is adjusted as appropriate to reflect PEF's rate treatment.

17. RISK MANAGEMENT ACTIVITIES AND DERIVATIVES TRANSACTIONS

We are exposed to various risks related to changes in market conditions. We have a risk management committee that 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. Under our risk policy, we 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. We minimize such risk by performing credit and financial reviews using a combination of financial analysis and publicly available credit ratings of such counterparties. Potential nonperformance by counterparties is not expected to have a material effect on our financial position or results of operations.

A. COMMODITY DERIVATIVES

GENERAL

Most of our physical commodity contracts are not derivatives or qualify as normal purchases or sales. Therefore, such contracts are not recorded at fair value.

DISCONTINUED OPERATIONS

As discussed in Note 3C, in 2007 our subsidiary PVI sold or assigned substantially all of its CCO physical and commercial assets and liabilities representing substantially all of our nonregulated energy marketing and trading operations. For the year ended December 31, 2007, \$88 million of after-tax gains from derivative instruments related to our nonregulated energy marketing and trading operations was included in discontinued operations on the Consolidated Statements of Income.

In 2007, we entered into derivative contracts to hedge economically a portion of our synthetic fuels cash flow exposure to the risk of rising oil prices. The contracts were marked-to-market with changes in fair value recorded through earnings. These contracts ended on December 31, 2007, and were settled for cash in January 2008, with no material impact to 2008 earnings. Approximately 34 percent of the notional quantity of these contracts was entered into by Ceredo Synfuel LLC (Ceredo). As discussed in Note 3E, we disposed of our 100 percent ownership interest in Ceredo in March 2007. Progress Energy is the primary beneficiary of, and continues to consolidate, Ceredo in accordance with GAAP for variable interest entities, but we have recorded a 100 percent noncontrolling interest. Consequently, subsequent to the disposal there is no net earnings impact for the portion of the contracts entered into by Ceredo. Because we have abandoned our majority-owned facilities and our other synthetic fuels operations ceased as of December 31, 2007, gains and losses on these contracts were included in discontinued operations, net of tax on the Consolidated Statement of Income in 2007. During the year ended December 31, 2007, we recorded net pre-tax gains of \$168 million related to these contracts. Of this amount, \$57 million was attributable to Ceredo, of which \$42 million was attributed to noncontrolling interest for the portion of the gain subsequent to the disposal of Ceredo.

ECONOMIC DERIVATIVES

Derivative products, primarily natural gas and oil contracts, may be entered into from time to time 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 Utilities have derivative instruments through 2015 related to their exposure to price fluctuations on fuel oil and natural gas purchases. The majority of our financial hedge agreements will settle in 2010 and 2011. Substantially all of these instruments receive regulatory accounting treatment. Related unrealized gains and losses are recorded in regulatory liabilities and regulatory assets, respectively, on the Balance Sheets until the contracts are settled (See Note 7A). After settlement of the derivatives and the fuel is consumed, any realized gains or losses are passed through the fuel cost-recovery clause.

Certain hedge agreements may result in the receipt of, or posting of, derivative collateral with our counterparties, depending on the daily derivative position. Fluctuations in commodity prices that lead to our return of collateral received and/or our posting of collateral with our counterparties negatively impact our liquidity. We manage open positions with strict policies that limit our exposure to market risk and require daily reporting to management of potential financial exposures.

Certain counterparties have held cash collateral from PEC in support of these instruments. PEC had a \$7 million and an \$18 million cash collateral asset included in prepayments and other current assets on the PEC Consolidated Balance Sheet at December 31, 2009 and 2008, respectively. At December 31, 2009, PEC had 50.3 million MMBtu notional of natural gas related to outstanding commodity derivative swaps that were entered into to hedge forecasted natural gas purchases. Changes in natural gas prices and settlements of financial hedge agreements since December 31, 2008, have impacted PEF's cash collateral asset included in derivative collateral posted on the PEF Balance Sheet, which was \$139 million at December 31, 2009, compared to \$335 million at December 31, 2008. At December 31, 2009, PEF had 182.4 million MMBtu notional of natural gas and 56.3 million gallons notional of oil related to outstanding commodity derivative swaps that were entered into to hedge forecasted oil and natural gas purchases.

CASH FLOW HEDGES

The Utilities designate a portion of commodity derivative instruments as cash flow hedges. From time to time we hedge exposure to market risk associated with fluctuations in the price of power for our forecasted sales. Realized gains and losses are recorded net in operating revenues. We also hedge exposure to market risk associated with fluctuations in the price of fuel for fleet vehicles. At December 31, 2009, we had 0.4 million gallons notional of gasoline and 0.5 million gallons notional of heating oil related to outstanding commodity derivative swaps at each of PEC and PEF that were entered into to hedge forecasted gasoline and diesel purchases. Realized gains and losses are recorded net as part of fleet vehicle fuel costs. At December 31, 2009 and 2008, neither we nor the Utilities had material outstanding positions in such contracts. The ineffective portion of commodity cash flow hedges was not material to our or the Utilities' results of operations for 2009, 2008 and 2007.

At December 31, 2009 and 2008, the amount recorded in our or the Utilities' accumulated other comprehensive income related to commodity cash flow hedges was not material.

B. INTEREST RATE DERIVATIVES – FAIR VALUE OR CASH FLOW HEDGES

We use cash flow hedging strategies to reduce exposure to changes in cash flow due to fluctuating interest rates. We use fair value hedging strategies to reduce exposure to changes in fair value due to interest rate changes. Our cash flow hedging strategies are primarily accomplished through the use of forward starting swaps and our fair value hedging strategies are primarily accomplished through the use of fixed-to-floating swaps. The notional amounts of interest rate derivatives are not exchanged and do not represent exposure to credit loss. In the event of default by the counterparty, the exposure in these transactions is the cost of replacing the agreements at current market rates.

CASH FLOW HEDGES

At December 31, 2009, all open forward starting swaps will reach their mandatory termination dates within three years. At December 31, 2009, including amounts related to terminated hedges, we had \$35 million of after-tax losses, including \$27 million of after-tax losses at PEC and \$3 million of after-tax gains at PEF, recorded in accumulated other comprehensive income related to interest cash flow hedges. It is expected that in the next 12 months losses of \$7 million and \$4 million, net of tax, will be reclassified to interest expense at Progress Energy and PEC, respectively. The actual amounts that will be reclassified to earnings may vary from the expected amounts as a result of the timing of debt issuances at the Parent and the Utilities and changes in market value of currently open forward starting swaps.

At December 31, 2008, including amounts related to terminated hedges, we had \$56 million of after-tax losses, including \$35 million of after-tax losses at PEC recorded in accumulated other comprehensive income related to forward starting swaps.

At December 31, 2007, including amounts related to terminated hedges, we had \$24 million of after-tax losses, including \$12 million of after-tax losses at PEC and \$8 million of after-tax losses at PEF, recorded in accumulated other comprehensive income related to forward starting swaps.

At December 31, 2009, Progress Energy had \$325 million notional of open forward starting swaps, including \$100 million at PEC and \$75 million at PEF. At December 31, 2008, Progress Energy had \$450 million notional of open forward starting swaps, including \$250 million at PEC. At December 31, 2008, PEF had no open forward starting swaps. During January 2010, Progress Energy entered into \$175 million notional of forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuances, including \$75 million notional at PEF.

FAIR VALUE HEDGES

For interest rate fair value hedges, the change in the fair value of the hedging derivative is recorded in net interest charges and is offset by the change in the fair value of the hedged item. At December 31, 2009 and 2008, neither we nor the Utilities had any outstanding positions in such contracts.

C. CONTINGENT FEATURES

Certain of our derivative instruments contain provisions defining fair value thresholds requiring the posting of collateral for hedges in a liability position greater than such threshold amounts. The thresholds are tiered and based on the individual company's credit rating with each of the major credit rating agencies. Higher credit ratings have a higher threshold requiring a lower amount of the outstanding liability position to be covered by posted collateral. Conversely, lower credit ratings require a higher amount of the outstanding liability position to be covered by posted collateral. If our credit ratings were to be downgraded, we may have to post additional collateral on certain hedges in liability positions.

In addition, certain of our derivative instruments contain provisions that require our debt to maintain an investment grade credit rating from each of the major credit rating agencies. If our debt were to fall below investment grade, we would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions.

The aggregate fair value of all derivative instruments at Progress Energy with credit risk-related contingent features that were in a liability position at December 31, 2009, was \$405 million, for which Progress Energy had posted collateral of \$146 million in the normal course of business. If the credit risk-related contingent features underlying these agreements had been triggered at December 31, 2009, Progress Energy would have been required to post an additional \$260 million of collateral with its counterparties.

The aggregate fair value of all derivative instruments at PEC with credit risk-related contingent features that were in a liability position at December 31, 2009, was \$90 million, for which PEC had posted collateral of \$7 million in the normal course of business. If the credit risk-related contingent features underlying these agreements had been triggered at December 31, 2009, PEC would have been required to post an additional \$83 million of collateral with its counterparties.

The aggregate fair value of all derivative instruments at PEF with credit risk-related contingent features that were in a liability position at December 31, 2009, was \$315 million, for which PEF had posted collateral of \$139 million in the normal course of business. If the credit risk-related contingent features underlying these agreements had been triggered on December 31, 2009, PEF would have been required to post an additional \$177 million of collateral with its counterparties.

D. DERIVATIVE INSTRUMENT AND HEDGING ACTIVITY INFORMATION

Progress Energy

The following table presents the fair value of derivative instruments at December 31, 2009 and 2008:

Instrument / Balance sheet location (in millions)	December 31, 2009		December 31, 2008	
	Asset	Liability	Asset	Liability
Derivatives designated as hedging instruments				
Commodity cash flow derivatives				
Derivative liabilities, current		\$—		\$(2)
Interest rate derivatives				
Prepayments and other current assets	\$5		\$—	
Other assets and deferred debits	14		—	
Derivative liabilities, current				(65)
Total derivatives designated as hedging instruments	19	—	—	(67)
Derivatives not designated as hedging instruments				
Commodity derivatives ^(a)				
Prepayments and other current assets	11		9	
Other assets and deferred debits	9		1	
Derivative liabilities, current		(189)		(425)
Derivative liabilities, long-term		(236)		(263)
CVOs ^(b)				
Other liabilities and deferred credits		(15)		(34)
Fair value of derivatives not designated as hedging instruments	20	(440)	10	(722)
Fair value loss transition adjustment ^(c)				
Derivative liabilities, current		(1)		(1)
Derivative liabilities, long-term		(4)		(6)
Total derivatives not designated as hedging instruments	20	(445)	10	(729)
Total derivatives	\$39	\$(445)	\$10	\$(796)

^(a) Substantially all of these contracts receive regulatory treatment.

^(b) The Parent issued 98.6 million CVOs in connection with the acquisition of Florida Progress during 2000 (See Note 15).

^(c) In 2003, PEC recorded a \$38 million pre-tax (\$23 million after-tax) fair value loss transition adjustment pursuant to the adoption of new accounting guidance for derivatives. The related liability is being amortized to earnings over the term of the related contract (See Note 20).

The following tables present the effect of derivative instruments on the Consolidated Statements of Comprehensive Income and the Consolidated Statements of Income for the years ended December 31, 2009 and 2008:

Derivatives Designated as Hedging Instruments

Instrument (in millions)	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives ^(a)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income ^(a)	Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income ^(a)		Location of Gain or (Loss) Recognized in Income on Derivatives ^(b)	Amount of Pre- tax Gain or (Loss) Recognized in Income on Derivatives ^(b)	
	2009	2008		2009	2008		2009	2008
Commodity cash flow derivatives	\$1	\$(2)		\$—	\$—		\$—	\$—
Interest rate derivatives ^(c)	15	(35)	Interest charges	(6)	(3)	Interest charges	(3)	1

^(a) Effective portion.

^(b) Related to ineffective portion and amount excluded from effectiveness testing.

^(c) Amounts in accumulated other comprehensive income related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.

Derivatives Not Designated as Hedging Instruments

Instrument (in millions)	Realized Gain or (Loss) ^(a)		Unrealized Gain or (Loss) ^(b)	
	2009	2008	2009	2008
Commodity derivatives	\$(659)	\$174	\$(387)	\$(653)

^(a) After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause and are reflected in fuel used in electric generation on the Consolidated Statements of Income.

^(b) Amounts are recorded in regulatory liabilities and assets, respectively, on the Balance Sheets until derivatives are settled.

Instrument (in millions)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
		2009	2008
Commodity derivatives	Other, net	\$1	\$(3)
Fair value loss transition adjustment	Other, net	2	3
CVOs	Other, net	19	—
Total		\$22	\$—

PEC

The following table presents the fair value of derivative instruments at December 31, 2009 and 2008:

Instrument / Balance sheet location (in millions)	December 31, 2009		December 31, 2008	
	Asset	Liability	Asset	Liability
Derivatives designated as hedging instruments				
Commodity cash flow derivatives				
Derivative liabilities, current		\$—		\$(1)
Interest rate derivatives				
Other assets and deferred debits	\$8		\$—	
Derivative liabilities, current		—		(35)
Total derivatives designated as hedging instruments	8	—	—	(36)
Derivatives not designated as hedging instruments				
Commodity derivatives ^(a)				
Derivative liabilities, current		(28)		(45)
Other liabilities and deferred credits		(62)		(54)
Fair value of derivatives not designated as hedging instruments		(90)		(99)
Fair value loss transition adjustment ^(b)				
Derivative liabilities, current		(1)		(1)
Other liabilities and deferred credits		(4)		(6)
Total derivatives not designated as hedging instruments		(95)		(106)
Total derivatives	\$8	\$(95)	\$—	\$(142)

^(a) Substantially all of these contracts receive regulatory treatment.

^(b) In 2003, PEC recorded a \$38 million pre-tax (\$23 million after-tax) fair value loss transition adjustment pursuant to the adoption of new accounting guidance for derivatives. The related liability is being amortized to earnings over the term of the related contract (See Note 20).

The following tables present the effect of derivative instruments on the Consolidated Statements of Comprehensive Income and the Consolidated Statements of Income for the years ended December 31, 2009 and 2008:

Derivatives Designated as Hedging Instruments						
Instrument (in millions)	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives ^(a)		Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income ^(a)		Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives ^(b)	
	2009	2008	2009	2008	2009	2008
Commodity cash flow derivatives	\$—	\$(1)	\$—	\$—	\$—	\$—
Interest rate derivatives ^(c)	5	(25)	(3)	(1)	(2)	—

^(a) Effective portion.

^(b) Related to ineffective portion and amount excluded from effectiveness testing.

^(c) Amounts in accumulated other comprehensive income related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.

Derivatives Not Designated as Hedging Instruments

Instrument (in millions)	Realized Gain or (Loss) ^(a)		Unrealized Gain or (Loss) ^(b)	
	2009	2008	2009	2008
Commodity derivatives	\$(76)	\$2	\$(68)	\$(110)

^(a) After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause and are reflected in fuel used in electric generation on the Consolidated Statements of Income.

^(b) Amounts are recorded in regulatory liabilities and assets, respectively, on the Balance Sheets until derivatives are settled.

Instrument (in millions)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
		2009	2008
Commodity derivatives	Other, net	\$1	\$(3)
Fair value loss transition adjustment	Other, net	2	3
Total		\$3	\$-

PEF

The following table presents the fair value of derivative instruments at December 31, 2009 and 2008:

Instrument / Balance sheet location (in millions)	December 31, 2009		December 31, 2008	
	Asset	Liability	Asset	Liability
Derivatives designated as hedging instruments				
Interest rate derivatives				
Prepayments and other current assets	\$5		\$-	
Total derivatives designated as hedging instruments	5		-	
Derivatives not designated as hedging instruments				
Commodity derivatives ^(a)				
Prepayments and other current assets	11		9	
Other assets and deferred debits	9		1	
Derivative liabilities, current		\$(161)		\$(380)
Derivative liabilities, long-term		(174)		(209)
Total derivatives not designated as hedging instruments	20	(335)	10	(589)
Total derivatives	\$25	\$(335)	\$10	\$(589)

^(a) Substantially all of these contracts receive regulatory treatment.

The following tables present the effect of derivative instruments on the Statements of Comprehensive Income and the Statements of Income for the years ended December 31, 2009 and 2008:

Derivatives Designated as Hedging Instruments

Instrument (in millions)	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives ^(a)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income ^(a)	Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income ^(a)		Location of Gain or (Loss) Recognized in Income on Derivatives ^(b)	Amount of Pre- tax Gain or (Loss) Recognized in Income on Derivatives ^(b)	
	2009	2008		2009	2008		2009	2008
Commodity cash flow derivatives	\$1	\$(1)		\$—	\$—		\$—	\$—
Interest rate derivatives ^(c)	3	8	Interest charges	—	—	Interest charges	—	1

^(a) Effective portion.

^(b) Related to ineffective portion and amount excluded from effectiveness testing.

^(c) Amounts in accumulated other comprehensive income related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.

Derivatives Not Designated as Hedging Instruments

Instrument (in millions)	Realized Gain or (Loss) ^(a)		Unrealized Gain or (Loss) ^(b)	
	2009	2008	2009	2008
Commodity derivatives	\$(583)	\$172	\$(319)	\$(543)

^(a) After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause and are reflected in fuel used in electric generation on the Statements of Income.

^(b) Amounts are recorded in regulatory liabilities and assets, respectively, on the Balance Sheets until derivatives are settled.

18. RELATED PARTY TRANSACTIONS

As a part of normal business, we enter into various agreements providing financial or performance assurances to third parties. 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. Our guarantees may include performance obligations under power supply agreements, transmission agreements, gas agreements, fuel procurement agreements, trading operations and cash management. Our guarantees also include standby letters of credit and surety bonds. At December 31, 2009, the Parent had issued \$391 million of guarantees for future financial or performance assurance on behalf of its subsidiaries. This includes \$300 million of guarantees of certain payments of two wholly owned indirect subsidiaries (See Note 23). Subsequent to December 31, 2009, the Parent issued a \$76 million guarantee for performance assurance of a wholly owned indirect subsidiary. We do not believe conditions are likely for significant performance under the guarantees of performance issued by or on behalf of affiliates. To the extent liabilities are incurred as a result of the activities covered by the guarantees, such liabilities are included in the Consolidated Balance Sheet.

Our subsidiaries provide and receive services, at cost, to and from the Parent and its subsidiaries, in accordance with agreements approved by the SEC pursuant to Section 13(b) of the Public Utility Holding Company Act of 1935. The repeal of the Public Utility Holding Company Act of 1935 effective February 8, 2006, and subsequent regulation by the FERC did not change our current intercompany services. Services include purchasing, human resources, accounting, legal, transmission and delivery support, engineering materials, contract support, loaned employees payroll costs, construction management and other centralized administrative, management and support services. The costs of the services are billed on a direct-charge basis, whenever possible, and on allocation factors for general

costs that cannot be directly attributed. Billings from affiliates are capitalized or expensed depending on the nature of the services rendered. Amounts receivable from and/or payable to affiliated companies for these services are included in receivables from affiliated companies and payables to affiliated companies on the Balance Sheets.

PESC provides the majority of the affiliated services under the approved agreements. Services provided by PESC during 2009, 2008 and 2007 to PEC amounted to \$170 million, \$194 million and \$182 million, respectively, and services provided to PEF were \$147 million, \$160 million and \$174 million, respectively.

PEC and PEF also provide and receive services at cost. Services provided by PEC to PEF during 2009, 2008 and 2007 amounted to \$36 million, \$44 million and \$54 million, respectively. Services provided by PEF to PEC during 2009, 2008 and 2007 amounted to \$12 million, \$12 million and \$10 million, respectively.

PEC and PEF participate in an internal money pool, operated by Progress Energy, to more effectively utilize cash resources and to reduce outside short-term borrowings. The money pool is also used to settle intercompany balances. The weighted-average interest rate for the money pool was 0.73%, 3.29% and 5.49% for the years ended December 31, 2009, 2008 and 2007, respectively. Amounts payable to the money pool are included in notes payable to affiliated companies on the Balance Sheets. PEC and PEF recorded insignificant interest expense related to the money pool for all the years presented.

PEC and its wholly owned subsidiaries and PEF have entered into the Tax Agreement with the Parent (See Note 14).

19. FINANCIAL INFORMATION BY BUSINESS SEGMENT

Our reportable segments are PEC and PEF, both of which are primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina and South Carolina and in portions of Florida, respectively. These electric operations also distribute and sell electricity to other utilities, primarily on the east coast of the United States.

In addition to the reportable operating segments, the Corporate and Other segment includes the operations of the Parent and PESC and other miscellaneous nonregulated businesses that do not separately meet the quantitative thresholds for disclosure as separate reportable business segments.

Products and services are sold between the various reportable segments. All intersegment transactions are at cost.

In the following tables, capital and investment expenditures include property additions, acquisitions of nuclear fuel and other capital investments. Operational results and assets to be divested are not included in the table presented below.

(in millions)	PEC	PEF	Corporate and Other	Eliminations	Totals
At and for the year ended December 31, 2009					
Revenues					
Unaffiliated	\$4,627	\$5,249	\$9	\$—	\$9,885
Intersegment	—	2	234	(236)	—
Total revenues	4,627	5,251	243	(236)	9,885
Depreciation, amortization and accretion	470	502	14	—	986
Interest income	5	4	38	(33)	14
Total interest charges, net	195	231	286	(33)	679
Income tax expense (benefit)^(a)	294	209	(87)	—	416
Ongoing Earnings (loss)	540	460	(154)	—	846
Total assets	13,502	13,100	20,538	(15,904)	31,236
Capital and investment expenditures	962	1,532	21	(12)	2,503

(in millions)	PEC	PEF	Corporate and Other	Eliminations	Totals
At and for the year ended December 31, 2008					
Revenues					
Unaffiliated	\$4,429	\$4,730	\$8	\$ –	\$9,167
Intersegment	–	1	361	(362)	–
Total revenues	4,429	4,731	369	(362)	9,167
Depreciation, amortization and accretion	518	306	15	–	839
Interest income	12	9	38	(35)	24
Total interest charges, net	207	208	259	(35)	639
Income tax expense (benefit)	298	181	(84)	–	395
Ongoing Earnings (loss)	531	383	(138)	–	776
Total assets	13,165	12,471	17,483	(13,246)	29,873
Capital and investment expenditures	939	1,601	33	(13)	2,560

(in millions)	PEC	PEF	Corporate and Other	Eliminations	Totals
At and for the year ended December 31, 2007					
Revenues					
Unaffiliated	\$4,385	\$4,748	\$ 20	\$ –	\$9,153
Intersegment	–	1	393	(394)	–
Total revenues	4,385	4,749	413	(394)	9,153
Depreciation, amortization and accretion	519	366	20	–	905
Interest income	21	9	55	(51)	34
Total interest charges, net	210	173	258	(53)	588
Income tax expense (benefit)	295	144	(105)	–	334
Ongoing Earnings (loss)	498	315	(118)	–	695
Total assets	11,955	10,063	16,356	(12,088)	26,286
Capital and investment expenditures	941	1,262	3	(2)	2,204

^(a) Income tax expense (benefit) for 2009 excludes tax impact of \$17 million benefit at PEC and \$1 million benefit at Corporate and Other for Ongoing Earnings adjustments.

Management uses the non-GAAP financial measure “Ongoing Earnings” as a performance measure to evaluate the results of our segments and operations. A reconciliation of consolidated Ongoing Earnings to net income attributable to controlling interests for the years ended 2009, 2008 and 2007, respectively, is as follows:

(in millions)	2009	2008	2007
Ongoing Earnings	\$846	\$776	\$695
CVO mark-to-market	19	–	(2)
Impairment, net of tax benefit of \$1	(2)	–	–
Plant retirement charge, net of tax benefit of \$11	(17)	–	–
Cumulative prior period adjustment related to certain employee life insurance benefits, net of tax benefit of \$6 (See Note 24)	(10)	–	–
Valuation allowance and related net operating loss carry forward	–	(3)	–
Continuing income attributable to noncontrolling interests, net of tax	4	5	9
Income from continuing operations	840	778	702
Discontinued operations, net of tax	(79)	58	(206)
Net income attributable to noncontrolling interests, net of tax	(4)	(6)	8
Net income attributable to controlling interests	\$757	\$830	\$504

20. OTHER INCOME AND OTHER EXPENSE

Other income and expense includes interest income; AFUDC equity, which represents the estimated equity costs of capital funds necessary to finance the construction of new regulated assets; and other, net. The components of other, net as shown on the accompanying Statements of Income are presented below. Nonregulated energy and delivery services include power protection services and mass market programs such as surge protection, appliance services and area light sales, and delivery, transmission and substation work for other utilities.

Progress Energy

(in millions)	2009	2008	2007
Nonregulated energy and delivery services income, net	\$17	\$17	\$12
Fair value loss transition adjustment amortization (Note 17D)	2	3	4
CVO unrealized gain (loss), net (Note 15)	19	—	(2)
Donations	(20)	(25)	(22)
Other, net	(12)	(12)	1
Other, net	\$6	\$(17)	\$(7)

PEC

(in millions)	2009	2008	2007
Nonregulated energy and delivery services income, net	\$6	\$11	\$6
Fair value loss transition adjustment amortization (Note 17D)	2	3	4
Donations	(10)	(14)	(9)
Other, net	(16)	4	5
Other, net	\$(18)	\$4	\$6

PEF

(in millions)	2009	2008	2007
Nonregulated energy and delivery services income, net	\$11	\$8	\$8
Donations	(10)	(11)	(8)
Other, net	4	(7)	(2)
Other, net	\$5	\$(10)	\$(2)

21. ENVIRONMENTAL MATTERS

We are subject to regulation by various federal, state and local authorities in the areas of air quality, water quality, control of toxic substances and hazardous and solid wastes, and other environmental matters. We believe that we are in substantial compliance with those environmental regulations currently applicable to our business and operations and believe we have all necessary permits to conduct such operations. Environmental laws and regulations frequently change and the ultimate costs of compliance cannot always be precisely estimated.

A. HAZARDOUS AND SOLID WASTE

The provisions of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), authorize the United States Environmental Protection Agency (EPA) to require the cleanup of hazardous waste sites. This statute imposes retroactive joint and several liabilities. Some states, including North Carolina, South Carolina and Florida, have similar types of statutes. We are periodically notified by regulators, including the EPA and various state agencies, of our involvement or potential involvement in sites that may require investigation and/or remediation. There are presently several sites with respect to which we have been notified of our potential liability by the EPA, the state of North Carolina, the state of Florida, or potentially responsible party (PRP) groups as described below in greater detail. Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under federal and state laws. PEC and PEF are each PRPs at several manufactured gas plant (MGP) sites. We are also currently in the process of assessing potential costs and exposures at other sites. These costs are eligible for regulatory recovery through either base rates or cost-

recovery clauses. Both PEC and PEF evaluate potential claims against other PRPs and insurance carriers and plan to submit claims for cost recovery where appropriate. The outcome of potential and pending claims cannot be predicted. A discussion of sites by legal entity follows.

We record accruals for probable and estimable costs related to environmental sites on an undiscounted basis. We measure our liability for these sites based on available evidence including our experience in investigating and remediating environmentally impaired sites. The process often involves assessing and developing cost-sharing arrangements with other PRPs. For all sites, as assessments are developed and analyzed, we will accrue costs for the sites to the extent our liability is probable and the costs can be reasonably estimated. Because the extent of environmental impact, allocation among PRPs for all sites, remediation alternatives (which could involve either minimal or significant efforts), and concurrence of the regulatory authorities have not yet reached the stage where a reasonable estimate of the remediation costs can be made, we cannot determine the total costs that may be incurred in connection with the remediation of all sites at this time. It is probable that current estimates will change and additional losses, which could be material, may be incurred in the future.

The following table contains information about accruals for environmental remediation expenses described below. Accruals for probable and estimable costs related to various environmental sites, which were included in other current liabilities and other liabilities and deferred credits on the Balance Sheets, at December 31 were:

(in millions)	2009	2008
PEC		
MGP and other sites ^(a)	\$13	\$16
PEF		
Remediation of distribution and substation transformers	20	22
MGP and other sites	9	15
Total PEF environmental remediation accruals ^(b)	29	37
Total Progress Energy environmental remediation accruals	\$42	\$53

^(a) Expected to be paid out over one to five years.

^(b) Expected to be paid out over one to 15 years.

PROGRESS ENERGY

Including PEC's Ward Transformer site located in Raleigh, N.C. (Ward), PEF's distribution and substation transformers sites, and the Utilities' MGP sites discussed below, for the year ended December 31, 2009, we accrued approximately \$16 million and spent approximately \$27 million. For the year ended December 31, 2008, we accrued approximately \$25 million and spent approximately \$36 million. For the year ended December 31, 2007, we accrued approximately \$8 million and spent approximately \$27 million.

In addition to these sites, we incurred indemnity obligations related to certain pre-closing liabilities of divested subsidiaries, including certain environmental matters (See discussion under Guarantees in Note 22C).

PEC has recorded a minimum estimated total remediation cost for all of its remaining MGP sites based upon its historical experience with remediation of several of its MGP sites. The accruals for PEF's MGP and other sites relate to two former MGP sites and other sites associated with PEF that have required, or are anticipated to require, investigation and/or remediation. The maximum amount of the range for all the sites cannot be determined at this time. Actual experience may differ from current estimates, and it is probable that estimates will continue to change in the future.

In 2004, the EPA advised PEC that it had been identified as a PRP at the Ward site. The EPA offered PEC and a number of other PRPs the opportunity to negotiate the removal action for the Ward site and reimbursement to the EPA for the EPA's past expenditures in addressing conditions at the Ward site. Subsequently, PEC and other PRPs signed a settlement agreement, which requires the participating PRPs to remediate the Ward site. At December 31, 2009 and 2008, PEC's recorded liability for the site was approximately \$4 million and \$7 million, respectively. Actual experience may differ from current estimates, and it is probable that estimates will continue to change in the future. On September 12, 2008, PEC filed an initial civil action against a number of PRPs seeking contribution for

and recovery of costs incurred in remediating the Ward site, as well as a declaratory judgment that defendants are jointly and severally liable for response costs at the site. On March 13, 2009, a subsequent action was filed against additional PRPs, and on April 30, 2009, suit was filed against the remaining approximately 160 PRPs. PEC has settled with a number of the PRPs and is in active settlement negotiations with others. With respect to the defendants that do not settle, the federal district court in which this matter is pending requires that alternative dispute resolution be pursued early in civil litigation but it is unclear what process the court will require. The outcome of these matters cannot be predicted.

On September 30, 2008, the EPA issued a Record of Decision for the operable unit for stream segments downstream from the Ward site (Ward OU1) and advised 61 parties, including PEC, of their identification as PRPs for Ward OU1 and for the operable unit for further investigation at the Ward facility and certain adjacent areas (Ward OU2). The EPA's estimate for the selected remedy for Ward OU1 is approximately \$6 million. The EPA offered PEC and the other PRPs the opportunity to negotiate implementation of a response action for Ward OU1 and a remedial investigation and feasibility study for Ward OU2, as well as reimbursement to the EPA of approximately \$1 million for the EPA's past expenditures in addressing conditions at the site. On January 19, 2009, PEC and several of the other participating PRPs at the Ward site submitted a letter containing a good faith response to the EPA's special notice letter. Another group of PRPs separately submitted a good faith response, which the EPA advised would be used to negotiate implementation of the required actions. The other PRPs' good faith response was subsequently withdrawn. Discussions among representatives of certain PRPs, including PEC, and the EPA are ongoing. Although a loss is considered probable, an agreement among the PRPs for these matters has not been reached; consequently, it is not possible at this time to reasonably estimate the total amount of PEC's obligation, if any, for Ward OU1 and Ward OU2.

PEF has received approval from the FPSC for recovery through the ECRC of the majority of costs associated with the remediation of distribution and substation transformers. Under agreements with the Florida Department of Environmental Protection (FDEP), PEF has reviewed all distribution transformer sites and all substation sites for mineral oil-impacted soil caused by equipment integrity issues. Should further distribution transformer sites be identified outside of this population, the distribution O&M costs will not be recoverable through the ECRC. For the year ended December 31, 2009, PEF accrued approximately \$13 million due to the identification of additional transformer sites and an increase in estimated remediation costs, and spent approximately \$15 million related to the remediation of transformers. For the year ended December 31, 2008, PEF accrued approximately \$17 million, due to the identification of additional transformer sites and an increase in estimated remediation costs, and spent approximately \$26 million related to the remediation of transformers. For the year ended December 31, 2007, PEF accrued approximately \$10 million due to an increase in estimated remediation costs and spent approximately \$22 million related to the remediation of transformers. At December 31, 2009 and 2008, PEF has recorded a regulatory asset for the probable recovery of these costs through the ECRC (See Note 7A).

PEC

Including Ward, and MGP sites previously discussed in "Progress Energy," for the year ended December 31, 2009, PEC accrued approximately \$3 million and spent approximately \$6 million. For the year ended December 31, 2008, PEC accrued and spent approximately \$8 million. For the year ended December 31, 2007, PEC's accruals and expenditures were not material. These amounts primarily relate to the Ward site, which is discussed under "Progress Energy" above.

PEF

Including the distribution and substation transformer sites and MGP and other sites previously discussed in "Progress Energy," for the year ended December 31, 2009, PEF accrued approximately \$13 million and spent approximately \$21 million, including \$6 million of expenditures related to MGP and other sites. For the year ended December 31, 2008, PEF accrued approximately \$17 million and spent approximately \$28 million, which primarily related to distribution and substation transformer sites. For the year ended December 31, 2007, PEF accrued approximately \$10 million and spent approximately \$22 million, which primarily related to distribution and substation transformer sites. For the years ended December 31, 2008 and 2007, PEF's accruals and expenditures for MGP and other sites were not material.

B. AIR AND WATER QUALITY

At December 31, 2009 and 2008, we were subject to various current federal, state and local environmental compliance laws and regulations governing air and water quality, resulting in capital expenditures and increased O&M expenses. These compliance laws and regulations included the Clean Air Interstate Rule (CAIR), the Clean Air Visibility Rule (CAVR), the Clean Smokestacks Act, enacted in June 2002 and mercury regulation. PEC's and PEF's environmental compliance capital expenditures related to these regulations began in 2002 and 2005, respectively. At December 31, 2009, cumulative environmental compliance capital expenditures to date with regard to these environmental laws and regulations were \$2.119 billion, including \$1.054 billion at PEC, which primarily relates to Clean Smokestacks Act projects, and \$1.065 billion at PEF, which related entirely to in-process CAIR projects. At December 31, 2008, cumulative environmental compliance capital expenditures to date with regard to these environmental laws and regulations were \$1.859 billion, including \$1.012 billion at PEC, which primarily relates to Clean Smokestacks Act projects, and \$847 million at PEF, which related entirely to in-process CAIR projects.

On July 11, 2008, the U.S. Court of Appeals for the District of Columbia (D.C. Court of Appeals) issued its decision on multiple challenges to the CAIR, which vacated the CAIR in its entirety. On December 23, 2008, in response to petitions for rehearing filed by a number of parties, the D.C. Court of Appeals remanded the CAIR without vacating the rule for the EPA to conduct further proceedings consistent with the D.C. Court of Appeals' prior opinion. The outcome of the EPA's further proceedings cannot be predicted. Because the D.C. Court of Appeals December 23, 2008 decision remanded the CAIR, the current implementation of the CAIR continues to fulfill best available retrofit technology (BART) for SO₂ and NO_x for BART-affected units under the CAVR. Should this determination change as the CAIR is revised, CAVR compliance eventually may require consideration of NO_x and SO₂ emissions in addition to particulate matter emissions or BART-eligible units.

On February 8, 2008, the D.C. Court of Appeals vacated the delisting determination and the Clean Air Mercury Rule (CAMR). The U.S. Supreme Court declined to hear an appeal of the D.C. Court of Appeals' decision in January 2009. As a result, the EPA subsequently announced that it will develop a maximum achievable control technology (MACT) standard consistent with the agency's original listing determination. The three states in which the Utilities operate adopted mercury regulations implementing CAMR and submitted their state implementation rules to the EPA. It is uncertain how the decision that vacated the federal CAMR will affect the state rules; however, state-specific provisions are likely to remain in effect. The North Carolina mercury rule contains a requirement that all coal-fired units in the state install mercury controls by December 31, 2017, and requires compliance plan applications to be submitted in 2013. We are currently evaluating the impact of these decisions. The outcome of these matters cannot be predicted.

To date, expenditures at PEF for CAIR regulation primarily relate to environmental compliance projects at CR5 and CR4. The CR5 project was placed in service on December 2, 2009, and the CR4 project is expected to be placed in service in 2010. Under an agreement with the FDEP, PEF will retire CR1 and CR2 as coal-fired units and operate emission control equipment at CR4 and CR5. CR1 and CR2 will be retired after the second proposed nuclear unit at Levy completes its first fuel cycle, which was anticipated to be around 2020. As discussed under "Other Matters – Nuclear," PEF expects the schedule for the commercial operation of Levy to shift later than the 2016 to 2018 timeframe by a minimum of 20 months. PEF is required to advise the FDEP of any developments that will delay the retirement of CR1 and CR2 beyond the originally anticipated completion date of the first fuel cycle for Levy Unit 2. PEF has advised the FDEP of a Levy schedule shift. We are currently evaluating the impacts of the Levy schedule. We cannot predict the outcome of this matter.

We account for emission allowances as inventory using the average cost method. We value inventory of the Utilities at historical cost consistent with ratemaking treatment. The EPA is continuing to record allowance allocations under the CAIR NO_x trading program, in some cases for years beyond the estimated two-year period for promulgation of a replacement rule. The EPA's continued recording of CAIR NO_x allowance allocations does not guarantee that allowances will continue to be usable for compliance after a replacement rule is finalized or that they will continue to have value in the future. SO₂ emission allowances will be utilized to comply with existing Clean Air Act requirements. PEF's CAIR expenses, including NO_x allowance inventory expense, are recoverable through the ECRC. At December 31, 2009 and 2008, PEC had approximately \$13 million and \$22 million, respectively, in SO₂ emission allowances and an immaterial amount of NO_x emission allowances. At December 31, 2009 and 2008, PEF

had approximately \$7 million and \$11 million, respectively, in SO₂ emission allowances and approximately \$36 million and \$65 million, respectively, in NO_x emission allowances.

In June 2002, the Clean Smokestacks Act was enacted in North Carolina requiring the state's electric utilities to reduce the emissions of NO_x and SO₂ from their North Carolina coal-fired power plants in phases by 2013. Two of PEC's largest coal-fired generating units (the Roxboro No. 4 and Mayo Units) impacted by the Clean Smokestacks Act are jointly owned. Pursuant to joint ownership agreements, the joint owners are required to pay a portion of the costs of owning and operating these plants. PEC has determined that the most cost-effective Clean Smokestacks Act compliance strategy is to maximize the SO₂ removal from its larger coal-fired units, including Roxboro No. 4 and Mayo, so as to avoid the installation of expensive emission controls on its smaller coal-fired units. In order to address the joint owner's concerns that such a compliance strategy would result in a disproportionate share of the cost of compliance for the jointly owned units, in 2005 PEC entered into an agreement with the joint owner to limit its aggregate costs associated with capital expenditures to comply with the Clean Smokestacks Act to approximately \$38 million. PEC recorded a related liability for the joint owner's share of estimated costs in excess of the contract amount. All of PEC's environmental compliance projects under the first phase of Clean Smokestacks Act emission reductions, including projects at the Mayo and Roxboro Plants, have been placed in service and PEC estimates its remaining exposure is not material. See Note 22C for further discussion of PEC's indemnification liability. Because PEC has taken a system-wide compliance approach, its North Carolina retail ratepayers have significantly benefited from the strategy of focusing emission reduction efforts on the jointly owned units, and, therefore, PEC believes that any costs in excess of the joint owner's share should be recovered from North Carolina retail ratepayers, consistent with other capital expenditures associated with PEC's compliance with the Clean Smokestacks Act. On September 5, 2008, the NCUC ordered that PEC shall be allowed to include in rate base all reasonable and prudently incurred environmental compliance costs in excess of \$584 million, including eligible compliance costs in excess of the joint owner's share, as the projects are closed to plant in service.

22. COMMITMENTS AND CONTINGENCIES

A. PURCHASE OBLIGATIONS

In most cases, our purchase obligation contracts contain provisions for price adjustments, minimum purchase levels and other financial commitments. The commitment amounts presented below are estimates and therefore will likely differ from actual purchase amounts. At December 31, 2009, the following table reflects contractual cash obligations and other commercial commitments in the respective periods in which they are due:

<i>Progress Energy</i>						
(in millions)	2010	2011	2012	2013	2014	Thereafter
Fuel	\$2,647	\$2,335	\$1,953	\$1,706	\$1,405	\$8,217
Purchased power	445	467	447	445	367	3,636
Construction obligations	1,820	1,725	1,453	1,524	1,313	1,543
Other purchase obligations	52	74	36	27	19	163
Total	\$4,964	\$4,601	\$3,889	\$3,702	\$3,104	\$13,559

<i>PEC</i>						
(in millions)	2010	2011	2012	2013	2014	Thereafter
Fuel	\$1,354	\$1,192	\$1,004	\$1,003	\$802	\$3,553
Purchased power	91	98	80	73	68	505
Construction obligations	365	184	13	15	4	—
Other purchase obligations	16	11	5	5	6	6
Total	\$1,826	\$1,485	\$1,102	\$1,096	\$880	\$4,064

PEF

(in millions)	2010	2011	2012	2013	2014	Thereafter
Fuel	\$1,293	\$1,143	\$949	\$703	\$603	\$4,664
Purchased power	354	369	367	372	299	3,131
Construction obligations	1,455	1,541	1,440	1,509	1,309	1,543
Other purchase obligations	23	36	29	21	14	157
Total	\$3,125	\$3,089	\$2,785	\$2,605	\$2,225	\$9,495

FUEL AND PURCHASED POWER

Through our subsidiaries, we have entered into various long-term contracts for coal, oil, gas and nuclear fuel as well as transportation agreements for the related fuel. Our payments under these commitments were \$2.921 billion, \$3.078 billion and \$2.360 billion for 2009, 2008 and 2007, respectively. PEC's total payments under these commitments for its generating plants were \$1.527 billion, \$1.446 billion and \$1.049 billion in 2009, 2008 and 2007, respectively. PEF's payments totaled \$1.394 billion, \$1.632 billion and \$1.311 billion in 2009, 2008 and 2007, respectively. Essentially all fuel and certain purchased power costs incurred by PEC and PEF are recovered through their respective cost-recovery clauses.

In December 2008, PEF entered into a nuclear fuel fabrication contract for the planned Levy nuclear units. (See discussion under Construction Obligations below.) This \$334 million contract (fuel plus related core components) is for the period from 2014 through 2027 and contains exit provisions with termination fees that vary based on the circumstance.

Both PEC and PEF have ongoing purchased power contracts with certain co-generators (primarily QFs) with expiration dates ranging from 2010 to 2029. These purchased power contracts generally provide for capacity and energy payments.

PEC executed two long-term tolling agreements for the purchase of all of the power generated from Broad River LLC's Broad River facility. One agreement provides for the purchase of approximately 500 MW of capacity through May 2021 with average minimum annual payments of approximately \$24 million, primarily representing capital-related capacity costs. The second agreement provides for the additional purchase of approximately 335 MW of capacity through February 2022 with average annual payments of approximately \$24 million representing capital-related capacity costs. Total purchases for both capacity and energy under the Broad River LLC's Broad River facility agreements amounted to \$46 million, \$44 million and \$39 million in 2009, 2008 and 2007, respectively.

In 2007, PEC executed long-term agreements for the purchase of power from Southern Power Company. The agreements provide for capacity purchases of 305 MW (68 percent of net output) for 2010, 310 MW (30 percent of net output) for 2011 and 150 MW (33 percent of net output) annually thereafter through 2019. Estimated payments for capacity under the agreements are \$23 million for 2010, \$24 million for 2011 and \$12 million annually thereafter through 2019.

PEC has various pay-for-performance contracts with QFs, including renewable energy, for approximately 200 MW of firm capacity expiring at various times through 2029. In most cases, these contracts account for 100 percent of the net generating capacity of each of the facilities. Payments for both capacity and energy are contingent upon the QFs' ability to generate. Payments made under these contracts were \$24 million, \$55 million and \$95 million in 2009, 2008 and 2007, respectively.

PEF has firm contracts for approximately 489 MW of purchased power with other utilities, including a contract with Southern Company for approximately 414 MW (12 percent of net output) of purchased power that ends in 2010. Additional contracts with Southern Company for approximately 424 MW (25 percent of net output) of purchased power annually start in 2010 and extend through 2016. Total purchases, for both energy and capacity, under these agreements amounted to \$149 million, \$178 million and \$161 million for 2009, 2008 and 2007, respectively. Minimum purchases under these contracts, representing capital-related capacity costs, are approximately \$60 million, \$56 million, \$44 million, \$52 million and \$52 million for 2010 through 2014, respectively, and \$74 million payable thereafter.

PEF has ongoing purchased power contracts with certain QFs for 682 MW of firm capacity with expiration dates ranging from 2010 to 2025. Energy payments are based on the actual power taken under these contracts. Capacity payments are subject to the QFs meeting certain contract performance obligations. In most cases, these contracts account for 100 percent of the net generating capacity of each of the facilities. All ongoing commitments have been approved by the FPSC. Total capacity and energy payments made under these contracts amounted to \$435 million, \$440 million and \$447 million for 2009, 2008 and 2007, respectively. Minimum expected future capacity payments under these contracts are \$286 million, \$301 million, \$313 million, \$310 million and \$237 million for 2010 through 2014, respectively, and \$3.042 billion payable thereafter. 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.

In 2009, PEC executed a long-term coal transportation agreement by combining, amending and restating previous agreements with Norfolk Southern Railroad. This agreement will support PEC's coal supply needs through June 2020. Expected future transportation payments under this agreement are \$254 million, \$264 million, \$260 million, \$254 million and \$277 million for 2010 through 2014, respectively, with approximately \$1.679 billion payable thereafter. Coal transportation expenses under these agreements were approximately \$283 million in 2009. PEC's state utility commissions allow fuel-related costs to be recovered through fuel cost-recovery clauses.

PEC has entered into conditional agreements for firm pipeline transportation capacity to support PEC's gas supply needs for the period from April 2011 through August 2032. The estimated total cost to PEC associated with these agreements is approximately \$1.598 billion, of which approximately \$404 million will be classified as a capital lease. Due to the conditions of the capital lease agreement, the capital lease will not be recorded on PEC's balance sheet until approximately 2012. The transactions are subject to several conditions precedent, including various state regulatory approvals, the completion and commencement of operation of necessary related interstate and intrastate natural gas pipeline system expansions and other contractual provisions. Due to the conditions of these agreements, the estimated costs associated with these agreements are not currently included in PEC's fuel commitments.

In April 2008 (and as amended in February 2009), PEF entered into conditional contracts and extensions of existing contracts with Florida Gas Transmission Company, LLC (FGT) for firm pipeline transportation capacity to support PEF's gas supply needs for the period from April 2011 through March 2036. The total cost to PEF associated with these agreements is estimated to be approximately \$1.065 billion. In addition to the FGT contracts, PEF has entered into additional gas supply and transportation arrangements for the period from 2010 through 2036. The total current notional cost of these additional agreements is estimated to be approximately \$1.043 billion. The FGT contracts along with the additional gas supply and transportation arrangements are subject to several conditions precedent, including various federal regulatory approvals, the completion and commencement of operation of necessary related interstate natural gas pipeline system expansions and other contractual provisions. Due to the conditions of these agreements, the estimated costs associated with these agreements are not currently included in PEF's fuel commitments.

CONSTRUCTION OBLIGATIONS

We have purchase obligations related to various capital construction projects. Our total payments under these contracts were \$818 million, \$1.018 billion and \$698 million for 2009, 2008 and 2007, respectively. The majority of our construction obligations relate to PEF as discussed below.

PEC has purchase obligations related to various capital projects including new generation and transmission obligations. Total payments under PEC's construction-related contracts were \$199 million, \$140 million and \$208 million for 2009, 2008 and 2007, respectively.

The majority of PEF's construction obligations relate to an engineering, procurement and construction (EPC) agreement that PEF entered into in December 2008 with Westinghouse Electric Company LLC and Stone & Webster, Inc. for two approximately 1,100-MW Westinghouse AP1000 nuclear units planned for construction at Levy. Estimated payments and associated escalation totaling \$8.608 billion are included for the multi-year contract and do not assume any joint ownership. The contractual obligations presented are in accordance with the existing terms of the EPC agreement. Actual payments under the EPC agreement are dependent upon, and may vary significantly based upon the decision to build, regulatory approval schedules, timing and escalation of project costs,

and the percentages, if any, of joint ownership. In 2009, the NRC indicated it would process PEF's limited work authorization request following COL issuance resulting in a minimum 20-month in-service schedule shift for the Levy units from the original 2016 to 2018 timeframe. Additional schedule shifts are likely given, among other things, the permitting and licensing process, state of Florida and macro-economic conditions and recent FPSC DSM and energy-efficiency goals and other decisions. Uncertainty regarding access to capital on reasonable terms could be another factor to affect the Levy schedule. In light of the regulatory schedule shift and other factors, our anticipated capital expenditures for Levy will be significantly less in the near term than previously planned. Because of anticipated schedule shifts, we are negotiating an amendment to the Levy EPC agreement. We cannot currently predict the impact such amendment might have on the amount and timing of PEF's contractual obligations. For termination without cause, the EPC agreement contains exit provisions with termination fees, which may be significant, that vary based on the termination circumstance. The magnitude of these contract suspension, termination and exit costs cannot be determined at this time and, accordingly, are not reflected in construction obligations. See Note 7C for additional information about the Levy project. PEF made payments of \$243 million and \$117 million in 2009 and 2008, respectively, toward long-lead equipment and engineering related to the EPC agreement. Additionally, PEF has other construction obligations related to various capital projects including new generation, transmission and environmental compliance. Total payments under PEF's other construction-related contracts were \$376 million, \$761 million and \$490 million for 2009, 2008 and 2007, respectively.

OTHER PURCHASE OBLIGATIONS

We have entered into various other contractual obligations primarily related to service contracts for operational services entered into by PESC, parts and services contracts, and PEF service agreements related to the Hines Energy Complex and the Bartow Plant. Our payments under these agreements were \$56 million, \$110 million and \$75 million for 2009, 2008 and 2007, respectively.

PEC has various purchase obligations including obligations for limestone supply and fleet vehicles. Total purchases under these contracts were \$14 million, \$18 million and \$6 million for 2009, 2008 and 2007, respectively.

Among PEF's other purchase obligations, PEF has long-term service agreements for the Hines Energy Complex and the Bartow Plant, emission obligations and fleet vehicles. Total payments under these contracts were \$22 million, \$58 million and \$24 million for 2009, 2008 and 2007, respectively. Future obligations are primarily comprised of the long-term service agreements.

B. LEASES

We lease office buildings, computer equipment, vehicles, railcars and other property and equipment with various terms and expiration dates. Some rental payments for transportation equipment include minimum rentals plus contingent rentals based on mileage. These contingent rentals are not significant. Our rent expense under operating leases totaled \$37 million, \$38 million and \$40 million for 2009, 2008 and 2007, respectively. Our purchased power expense under agreements classified as operating leases was approximately \$11 million, \$152 million and \$69 million in 2009, 2008 and 2007, respectively.

PEC's rent expense under operating leases totaled \$26 million, \$26 million and \$23 million during 2009, 2008 and 2007, respectively. These amounts include rent expense allocated from PESC to PEC of \$5 million, \$5 million and \$6 million for 2009, 2008 and 2007, respectively. Purchased power expense under agreements classified as operating leases was approximately \$11 million, \$9 million and \$10 million in 2009, 2008 and 2007, respectively.

PEF's rent expense under operating leases totaled \$11 million, \$11 million and \$15 million during 2009, 2008 and 2007, respectively. These amounts include rent expense allocated from PESC to PEF of \$3 million, \$3 million and \$6 million for 2009, 2008 and 2007, respectively. Purchased power expense under agreements classified as operating leases was approximately \$142 million and \$59 million in 2008 and 2007, respectively. PEF had no purchased power expense under operating lease agreements for 2009.

Assets recorded under capital leases, including plant related to purchased power agreements, at December 31 consisted of:

(in millions)	Progress Energy		PEC		PEF	
	2009	2008	2009	2008	2009	2008
Buildings	\$267	\$267	\$30	\$30	\$237	\$237
Less: Accumulated amortization	(37)	(28)	(15)	(14)	(22)	(14)
Total	\$230	\$239	\$15	\$16	\$215	\$223

Consistent with the ratemaking treatment for capital leases, capital lease expenses are charged to the same accounts that would be used if the leases were operating leases. Thus, our and the Utilities' capital lease expense is generally included in O&M or purchased power expense. Our capital lease expense totaled \$26 million each for 2009 and 2008 and \$22 million for 2007, which was primarily comprised of PEF's capital lease expense of \$24 million each for 2009 and 2008 and \$20 million for 2007.

At December 31, 2009, minimum annual payments, excluding executory costs such as property taxes, insurance and maintenance, under long-term noncancelable operating and capital leases were:

(in millions)	Progress Energy		PEC		PEF	
	Capital	Operating	Capital	Operating	Capital	Operating
2010	\$28	\$35	\$2	\$25	\$26	\$6
2011	28	29	2	21	26	6
2012	28	48	2	20	26	26
2013	36	78	10	42	26	34
2014	26	77	—	42	26	33
Thereafter	246	941	—	558	246	382
Minimum annual payments	392	\$1,208	16	\$708	376	\$487
Less amount representing imputed interest	(162)		(2)		(160)	
Present value of net minimum lease payments under capital leases	\$230		\$14		\$216	

In 2003, we entered into an operating lease for a building for which minimum annual rental payments are approximately \$7 million. The lease term expires July 2035 and provides for no rental payments during the last 15 years of the lease, during which period \$53 million of rental expense will be recorded in the Consolidated Statements of Income.

In 2008, PEC entered into a 336-MW (100 percent of net output) tolling purchased power agreement, which is classified as an operating lease. The agreement calls for an initial minimum payment of approximately \$18 million in 2013, with minimum annual payments escalating at a rate of 2.5 percent through 2032, for a total of approximately \$460 million.

In 2009, PEC entered into a 240-MW (100 percent of net output) tolling purchased power agreement, which is classified as an operating lease. The agreement calls for minimum annual payments of approximately \$10 million from July 2012 through September 2017, for a total of approximately \$52 million.

In 2007, PEF entered into a 632-MW (100 percent of net output) tolling purchased power agreement, which is classified as an operating lease. The agreement calls for minimum annual payments of approximately \$28 million from June 2012 through May 2027, for a total of approximately \$420 million.

In 2005, PEF entered into an agreement for a capital lease for a building completed during 2006. The lease term expires March 2047 and provides for minimum annual payments of approximately \$5 million from 2007 through 2026, for a total of approximately \$103 million. The lease term provides for no payments during the last 20 years of the lease, during which period approximately \$51 million of rental expense will be recorded in the Statements of Income.

In 2006, PEF extended the terms of a 517-MW (100 percent of net output) tolling agreement for purchased power, which is classified as a capital lease of the related plant, for an additional 10 years. The agreement calls for minimum annual payments of approximately \$21 million from April 2007 through April 2024, for a total of approximately \$348 million.

The Utilities are lessors of electric poles, streetlights and other facilities. PEC's minimum rentals receivable under noncancelable leases are \$11 million for 2010 and none thereafter. PEC's rents received are contingent upon usage and totaled \$34 million for 2009 and \$33 million each for 2008 and 2007. PEF's rents received are based on a fixed minimum rental where price varies by type of equipment or contingent usage and totaled \$84 million, \$81 million and \$78 million for 2009, 2008 and 2007, respectively. PEF's minimum rentals receivable under noncancelable leases are not material for 2010 and thereafter.

C. GUARANTEES

As a part of normal business, we enter into various agreements providing future financial or performance assurances to third parties. Such agreements include guarantees, standby letters of credit and surety bonds. At December 31, 2009, we do not believe conditions are likely for significant performance under these guarantees. To the extent liabilities are incurred as a result of the activities covered by the guarantees, such liabilities are included in the accompanying Consolidated Balance Sheets.

At December 31, 2009, we have issued guarantees and indemnifications of and for certain asset performance, legal, tax and environmental matters to third parties, including indemnifications made in connection with sales of businesses. At December 31, 2009, our estimated maximum exposure for guarantees and indemnifications for which a maximum exposure is determinable was \$458 million, including \$32 million at PEF. Related to the sales of businesses, the latest specified notice period extends until 2013 for the majority of legal, tax and environmental matters provided for in the indemnification provisions. Indemnifications for the performance of assets extend to 2016. For certain matters for which we receive timely notice, our indemnity obligations may extend beyond the notice period. Certain indemnifications have no limitations as to time or maximum potential future payments. At December 31, 2009 and 2008, we had recorded liabilities related to guarantees and indemnifications to third parties of approximately \$34 million and \$61 million, respectively. These amounts included \$10 million for PEC at December 31, 2008, and \$7 million and \$8 million, respectively, for PEF at December 31, 2009 and 2008. During the year ended December 31, 2009, our indemnification liability for certain legal matters made in connection with the sale of businesses decreased by approximately \$16 million as a result of a legal verdict discussed under "Synthetic Fuels Matters" in Note 22D. In 2005, PEC entered into an agreement with the joint owner of certain facilities at the Mayo and Roxboro Plants to limit their aggregate costs associated with capital expenditures to comply with the Clean Smokestacks Act and recognized a liability related to this indemnification. At December 31, 2009, all of PEC's environmental compliance projects under the first phase of Clean Smokestacks Act emission reductions, including projects at the Mayo and Roxboro Plants, had been placed in service. PEC estimates its remaining exposure under the indemnification is not material (See Note 21B). During the year ended December 31, 2009, PEC accrued approximately \$2 million and spent approximately \$12 million that exceeded the joint owner limit. During the year ended December 31, 2008, PEC made no additional accruals and spent approximately \$20 million that exceeded the joint owner limit. As current estimates change, it is possible that additional losses related to guarantees and indemnifications to third parties, which could be material, may be recorded in the future.

In addition, the Parent has issued \$300 million of guarantees of certain payments of two wholly owned indirect subsidiaries (See Note 23).

D. OTHER COMMITMENTS AND CONTINGENCIES

SPENT NUCLEAR FUEL MATTERS

Pursuant to the Nuclear Waste Policy Act of 1982, the Utilities entered into contracts 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.

The DOE failed to begin taking spent nuclear fuel by January 31, 1998. In January 2004, the Utilities filed a complaint in the United States Court of Federal Claims against the DOE, claiming that the DOE breached the Standard Contract for Disposal of Spent Nuclear Fuel by failing to accept spent nuclear fuel from our various facilities on or before January 31, 1998. Approximately 60 cases involving the government's actions in connection with spent nuclear fuel are currently pending in the Court of Federal Claims. The Utilities have asserted nearly \$91 million in damages incurred between January 31, 1998, and December 31, 2005; the time period set by the court for damages in this case. The Utilities will be free to file subsequent damage claims as they incur additional costs.

A trial was held in November 2007, and closing arguments were presented on April 4, 2008. On May 19, 2008, the Utilities received a ruling from the United States Court of Federal Claims awarding \$83 million in the claim against the DOE for failure to abide by a contract for federal disposition of spent nuclear fuel. The United States Department of Justice requested that the Trial Court reconsider its ruling. The Trial Court did reconsider its ruling and reduced the damage award by an immaterial amount. On August 15, 2008, the Department of Justice appealed the United States Court of Federal Claims ruling to the D.C. Court of Appeals. Oral arguments were held on May 4, 2009. On July 21, 2009, the D.C. Court of Appeals vacated and remanded the calculation of damages back to the Trial Court but affirmed the portion of damages awarded that were directed to overhead costs and other indirect expenses. The Department of Justice requested a rehearing en banc but the D.C. Court of Appeals denied the motion on November 3, 2009. In the event that the Utilities recover damages in this matter, such recovery is not expected to have a material impact on the Utilities' results of operations given the anticipated regulatory and accounting treatment. However, the Utilities cannot predict the outcome of this matter.

SYNTHETIC FUELS MATTERS

On October 21, 2009, a jury delivered a verdict in a lawsuit against Progress Energy and a number of our subsidiaries and affiliates arising out of an Asset Purchase Agreement dated as of October 19, 1999, and amended as of August 23, 2000, (the Asset Purchase Agreement) by and among U.S. Global, LLC (Global); Earthco; certain affiliates of Earthco; EFC Synfuel LLC (which was owned indirectly by Progress Energy, Inc.) and certain of its affiliates, including Solid Energy LLC; Solid Fuel LLC; Ceredo Synfuel LLC; Gulf Coast Synfuel LLC (currently named Sandy River Synfuel LLC) (collectively, the Progress Affiliates), as amended by an amendment to the Asset Purchase Agreement. In a case filed in the Circuit Court for Broward County, Fla., in March 2003 (the Florida Global Case), Global had requested an unspecified amount of compensatory damages, as well as declaratory relief. Global asserted (1) that pursuant to the Asset Purchase Agreement, it was entitled to an interest in two synthetic fuels facilities previously owned by the Progress Affiliates and an option to purchase additional interests in the two synthetic fuels facilities, (2) that it was entitled to damages because the Progress Affiliates prohibited it from procuring purchasers for the synthetic fuels facilities. As a result of the expiration of the Section 29 tax credit program on December 31, 2007, all of our synthetic fuels businesses were abandoned and we reclassified our synthetic fuels businesses as discontinued operations (See Note 3A).

The jury awarded Global \$78 million. On October 23, 2009, Global filed a motion to assess prejudgment interest on the award. On November 20, 2009, the court granted the motion and assessed \$55 million in prejudgment interest and entered judgment in favor of Global in a total amount of \$133 million. During the year ended December 31, 2009, we recorded an after-tax charge of \$74 million to discontinued operations (See Note 3A), which was net of a previously recorded indemnification liability of \$16 million. In December 2009, we made a \$154 million payment, which represents payment of the total judgment and a required premium equivalent to two years of interest, to the Broward County Clerk of Court bond account. On December 16, 2009, we filed notice of appeal. We cannot predict the outcome of this matter.

In a second suit filed in the Superior Court for Wake County, N.C., *Progress Synfuel Holdings, Inc. et al. v. U.S. Global, LLC* (the North Carolina Global Case), the Progress Affiliates seek declaratory relief consistent with our interpretation of the Asset Purchase Agreement. Global was served with the North Carolina Global Case on April 17, 2003.

On May 15, 2003, Global moved to dismiss the North Carolina Global Case for lack of personal jurisdiction over Global. In the alternative, Global requested that the court decline to exercise its discretion to hear the Progress Affiliates' declaratory judgment action. On August 7, 2003, the Wake County Superior Court denied Global's motion to dismiss, but stayed the North Carolina Global Case, pending the outcome of the Florida Global Case. The Progress Affiliates appealed the superior court's order staying the case. By order dated September 7, 2004, the North Carolina Court of Appeals dismissed the Progress Affiliates' appeal. Based upon the resolution of the Florida Global Case, we anticipate dismissal of the North Carolina Global Case.

In December 2006, we reached agreement with Global to settle an additional claim in the Florida Global Case related to amounts due to Global that were placed in escrow pursuant to a defined tax event. Upon the successful resolution of the IRS audit of the Earthco synthetic fuels facilities in 2006, and pursuant to a settlement agreement, the escrow totaling \$42 million as of December 31, 2006, was paid to Global in January 2007.

NOTICE OF VIOLATION

On April 29, 2009, the EPA issued a notice of violation and opportunity to show cause with respect to a 16,000-gallon oil spill at one of PEC's substations in 2007. The notice of violation did not include specified sanctions sought. Subsequently, the EPA notified PEC that the agency is seeking monetary sanctions that are *de minimus* to our and PEC's results of operations or financial condition. Discussions between PEC and the EPA are ongoing. We cannot predict the outcome of this matter.

FLORIDA NUCLEAR COST RECOVERY

On February 8, 2010, a lawsuit was filed against PEF in state circuit court in Sumter County, Fla., alleging that the Florida nuclear cost-recovery statute (Section 366.93, Florida Statutes) violates the Florida Constitution, and seeking a refund of all monies collected by PEF pursuant to that statute with interest. The complaint also requests that the court grant class action status to the plaintiffs. PEF believes the lawsuit is without merit and will defend against it. We cannot predict the outcome of this matter.

OTHER LITIGATION MATTERS

We and our subsidiaries are involved in various litigation matters in the ordinary course of business, some of which involve substantial amounts. Where appropriate, we have made accruals and disclosures to provide for such matters. In the opinion of management, the final disposition of pending litigation would not have a material adverse effect on our consolidated results of operations or financial position.

23. CONDENSED CONSOLIDATING STATEMENTS

Presented below are the Condensed Consolidating Statements of Income, Balance Sheets and Cash Flows as required by Rule 3-10 of Regulation S-X. In September 2005, we issued our guarantee of certain payments of two wholly owned indirect subsidiaries, FPC Capital I (the Trust) and Florida Progress Funding Corporation (Funding Corp.). Our guarantees are in addition to the previously issued guarantees of our wholly owned subsidiary, Florida Progress.

The Trust, a finance subsidiary, was established in 1999 for the sole purpose of issuing \$300 million of 7.10% Cumulative Quarterly Income Preferred Securities due 2039, Series A (Preferred Securities) and using the proceeds thereof to purchase from Funding Corp. \$300 million of 7.10% Junior Subordinated Deferrable Interest Notes due 2039 (Subordinated Notes). The Trust has no other operations and its sole assets are the Subordinated Notes and Notes Guarantee (as discussed below). Funding Corp. is a wholly owned subsidiary of Florida Progress and was formed for the sole purpose of providing financing to Florida Progress and its subsidiaries. Funding Corp. does not engage in business activities other than such financing and has no independent operations. Since 1999, Florida Progress has fully and unconditionally guaranteed the obligations of Funding Corp. under the Subordinated Notes (the Notes Guarantee). In addition, Florida Progress guaranteed the payment of all distributions related to the \$300 million Preferred Securities required to be made by the Trust, but only to the extent that the Trust has funds available for such distributions (the Preferred Securities Guarantee). The Preferred Securities Guarantee, considered together with the Notes Guarantee, constitutes a full and unconditional guarantee by Florida Progress of the Trust's obligations under the Preferred Securities. The Preferred Securities and Preferred Securities Guarantee are listed on the New York Stock Exchange.

The Subordinated Notes may be redeemed at the option of Funding Corp. 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. The annual interest expense is \$21 million and is reflected in the Consolidated Statements of Income.

We have guaranteed the payment of all distributions related to the Trust's Preferred Securities. At December 31, 2009, the Trust had outstanding 12 million shares of the Preferred Securities with a liquidation value of \$300 million. Our guarantees are joint and several, full and unconditional and are in addition to the joint and several, full and unconditional guarantees previously issued to the Trust and Funding Corp. by Florida Progress. Our subsidiaries have provisions restricting the payment of dividends to the Parent in certain limited circumstances and, as disclosed in Note 11B, there were no restrictions on PEC's or PEF's retained earnings.

The Trust is a variable-interest entity of which we are not the primary beneficiary. Separate financial statements and other disclosures concerning the Trust have not been presented because we believe that such information is not material to investors.

In these condensed consolidating statements, the Parent column includes the financial results of the parent holding company only. The Subsidiary Guarantor column includes the consolidated financial results of Florida Progress only, which is primarily comprised of its wholly owned subsidiary PEF. The Non-guarantor Subsidiaries column includes the consolidated financial results of all non-guarantor subsidiaries, which is primarily comprised of our wholly owned subsidiary PEC. The Other column includes elimination entries for all intercompany transactions and other consolidation adjustments. Financial statements for PEC and PEF are separately presented elsewhere in this Form 10-K. All applicable corporate expenses have been allocated appropriately among the guarantor and non-guarantor subsidiaries. The financial information may not necessarily be indicative of results of operations or financial position had the Subsidiary Guarantor or other non-guarantor subsidiaries operated as independent entities.

Condensed Consolidating Statement of Income
Year Ended December 31, 2009

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
Operating revenues					
Operating revenues	\$—	\$5,259	\$4,626	\$—	\$9,885
Affiliate revenues	—	—	235	(235)	—
Total operating revenues	—	5,259	4,861	(235)	9,885
Operating expenses					
Fuel used in electric generation	—	2,072	1,680	—	3,752
Purchased power	—	682	229	—	911
Operation and maintenance	8	839	1,269	(222)	1,894
Depreciation, amortization and accretion	—	502	484	—	986
Taxes other than on income	—	347	216	(6)	557
Other	—	13	—	—	13
Total operating expenses	8	4,455	3,878	(228)	8,113
Operating (loss) income	(8)	804	983	(7)	1,772
Other income (expense)					
Interest income	10	5	9	(10)	14
Allowance for equity funds used during construction	—	91	33	—	124
Other, net	18	6	(22)	4	6
Total other income (expense), net	28	102	20	(6)	144
Interest charges					
Interest charges	233	280	215	(10)	718
Allowance for borrowed funds used during construction	—	(27)	(12)	—	(39)
Total interest charges, net	233	253	203	(10)	679
(Loss) income from continuing operations before income tax and equity in earnings of consolidated subsidiaries	(213)	653	800	(3)	1,237
Income tax (benefit) expense	(93)	200	286	4	397
Equity in earnings of consolidated subsidiaries	875	—	—	(875)	—
Income (loss) from continuing operations	755	453	514	(882)	840
Discontinued operations, net of tax	2	(43)	(38)	—	(79)
Net income (loss)	757	410	476	(882)	761
Net (income) loss attributable to noncontrolling interests, net of tax	—	(3)	2	(3)	(4)
Net income (loss) attributable to controlling interests	\$757	\$407	\$478	\$(885)	\$757

Condensed Consolidating Statement of Income
Year Ended December 31, 2008

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
Operating revenues					
Operating revenues	\$—	\$4,738	\$4,429	\$—	\$9,167
Affiliate revenues	—	—	361	(361)	—
Total operating revenues	—	4,738	4,790	(361)	9,167
Operating expenses					
Fuel used in electric generation	—	1,675	1,346	—	3,021
Purchased power	—	953	346	—	1,299
Operation and maintenance	3	813	1,346	(342)	1,820
Depreciation, amortization and accretion	—	306	533	—	839
Taxes other than on income	—	309	207	(8)	508
Other	—	1	(4)	—	(3)
Total operating expenses	3	4,057	3,774	(350)	7,484
Operating (loss) income	(3)	681	1,016	(11)	1,683
Other income (expense)					
Interest income	11	9	16	(12)	24
Allowance for equity funds used during construction	—	95	27	—	122
Other, net	—	(18)	(4)	5	(17)
Total other income (expense), net	11	86	39	(7)	129
Interest charges					
Interest charges	201	263	227	(12)	679
Allowance for borrowed funds used during construction	—	(28)	(12)	—	(40)
Total interest charges, net	201	235	215	(12)	639
(Loss) income from continuing operations before income tax and equity in earnings of consolidated subsidiaries	(193)	532	840	(6)	1,173
Income tax (benefit) expense	(85)	172	306	2	395
Equity in earnings of consolidated subsidiaries	941	—	—	(941)	—
Income (loss) from continuing operations	833	360	534	(949)	778
Discontinued operations, net of tax	(3)	61	—	—	58
Net income (loss)	830	421	534	(949)	836
Net income attributable to noncontrolling interests, net of tax	—	(6)	—	—	(6)
Net income (loss) attributable to controlling interests	\$830	\$415	\$534	\$(949)	\$830

Condensed Consolidating Statement of Income
Year Ended December 31, 2007

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
Operating revenues					
Operating revenues	\$—	\$4,768	\$4,385	\$—	\$9,153
Affiliate revenues	—	—	391	(391)	—
Total operating revenues	—	4,768	4,776	(391)	9,153
Operating expenses					
Fuel used in electric generation	—	1,764	1,381	—	3,145
Purchased power	—	882	302	—	1,184
Operation and maintenance	10	834	1,369	(371)	1,842
Depreciation, amortization and accretion	—	369	536	—	905
Taxes other than on income	—	309	202	(10)	501
Other	—	20	98	(88)	30
Total operating expenses	10	4,178	3,888	(469)	7,607
Operating (loss) income	(10)	590	888	78	1,546
Other income (expense)					
Interest income	27	8	24	(25)	34
Allowance for equity funds used during construction	—	41	10	—	51
Other, net	—	(2)	(9)	4	(7)
Total other income (expense), net	27	47	25	(21)	78
Interest charges					
Interest charges	203	210	219	(27)	605
Allowance for borrowed funds used during construction	—	(12)	(5)	—	(17)
Total interest charges, net	203	198	214	(27)	588
(Loss) income from continuing operations before income tax and equity in earnings of consolidated subsidiaries	(186)	439	699	84	1,036
Income tax (benefit) expense	(79)	117	297	(1)	334
Equity in earnings of consolidated subsidiaries	596	—	—	(596)	—
Income (loss) from continuing operations	489	322	402	(511)	702
Discontinued operations, net of tax	15	13	(137)	(97)	(206)
Net income (loss)	504	335	265	(608)	496
Net loss attributable to noncontrolling interests, net of tax	—	8	—	—	8
Net income (loss) attributable to controlling interests	\$504	\$343	\$265	\$(608)	\$504

Condensed Consolidating Balance Sheet
December 31, 2009

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
ASSETS					
Utility plant, net	\$—	\$9,733	\$9,886	\$114	\$19,733
Current assets					
Cash and cash equivalents	606	72	47	—	725
Notes receivable from affiliated companies	30	46	303	(379)	—
Regulatory assets	—	54	88	—	142
Derivative collateral posted	—	139	7	—	146
Income taxes receivable	5	97	50	(7)	145
Prepayments and other current assets	14	1,158	1,377	(176)	2,373
Total current assets	655	1,566	1,872	(562)	3,531
Deferred debits and other assets					
Investment in consolidated subsidiaries	13,348	—	—	(13,348)	—
Regulatory assets	—	1,307	873	(1)	2,179
Goodwill	—	—	—	3,655	3,655
Nuclear decommissioning trust funds	—	496	871	—	1,367
Other assets and deferred debits	166	202	923	(520)	771
Total deferred debits and other assets	13,514	2,005	2,667	(10,214)	7,972
Total assets	\$14,169	\$13,304	\$14,425	\$(10,662)	\$31,236
CAPITALIZATION AND LIABILITIES					
Equity					
Common stock equity	\$9,449	\$4,590	\$5,085	\$(9,675)	\$9,449
Noncontrolling interests	—	3	3	—	6
Total equity	9,449	4,593	5,088	(9,675)	9,455
Preferred stock of subsidiaries	—	34	59	—	93
Long-term debt, affiliate	—	309	115	(152)	272
Long-term debt, net	4,193	3,883	3,703	—	11,779
Total capitalization	13,642	8,819	8,965	(9,827)	21,599
Current liabilities					
Current portion of long-term debt	100	300	6	—	406
Short-term debt	140	—	—	—	140
Notes payable to affiliated companies	—	376	3	(379)	—
Derivative liabilities	—	161	29	—	190
Other current liabilities	261	941	902	(182)	1,922
Total current liabilities	501	1,778	940	(561)	2,658
Deferred credits and other liabilities					
Noncurrent income tax liabilities	—	320	1,258	(382)	1,196
Regulatory liabilities	—	1,103	1,293	114	2,510
Other liabilities and deferred credits	26	1,284	1,969	(6)	3,273
Total deferred credits and other liabilities	26	2,707	4,520	(274)	6,979
Total capitalization and liabilities	\$14,169	\$13,304	\$14,425	\$(10,662)	\$31,236

Condensed Consolidating Balance Sheet
December 31, 2008

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
ASSETS					
Utility plant, net	\$-	\$8,790	\$9,385	\$118	\$18,293
Current assets					
Cash and cash equivalents	88	73	19	—	180
Notes receivable from affiliated companies	34	44	131	(209)	—
Regulatory assets	—	326	207	—	533
Derivative collateral posted	—	335	18	—	353
Income taxes receivable	34	56	104	—	194
Prepayments and other current assets	14	1,082	1,336	(172)	2,260
Total current assets	170	1,916	1,815	(381)	3,520
Deferred debits and other assets					
Investment in consolidated subsidiaries	11,924	—	—	(11,924)	—
Regulatory assets	—	1,324	1,243	—	2,567
Goodwill	—	—	—	3,655	3,655
Nuclear decommissioning trust funds	—	417	672	—	1,089
Other assets and deferred debits	155	196	953	(555)	749
Total deferred debits and other assets	12,079	1,937	2,868	(8,824)	8,060
Total assets	\$12,249	\$12,643	\$14,068	\$(9,087)	\$29,873
CAPITALIZATION AND LIABILITIES					
Equity					
Common stock equity	\$8,687	\$3,519	\$4,729	\$(8,248)	\$8,687
Noncontrolling interests	—	3	4	(1)	6
Total equity	8,687	3,522	4,733	(8,249)	8,693
Preferred stock of subsidiaries	—	34	59	—	93
Long-term debt, affiliate	—	309	115	(152)	272
Long-term debt, net	2,696	4,182	3,509	—	10,387
Total capitalization	11,383	8,047	8,416	(8,401)	19,445
Current liabilities					
Short-term debt	569	371	110	—	1,050
Notes payable to affiliated companies	—	206	3	(209)	—
Derivative liabilities	31	380	84	(2)	493
Other current liabilities	220	964	930	(171)	1,943
Total current liabilities	820	1,921	1,127	(382)	3,486
Deferred credits and other liabilities					
Noncurrent income tax liabilities	1	118	1,111	(412)	818
Regulatory liabilities	—	1,076	987	118	2,181
Other liabilities and deferred credits	45	1,481	2,427	(10)	3,943
Total deferred credits and other liabilities	46	2,675	4,525	(304)	6,942
Total capitalization and liabilities	\$12,249	\$12,643	\$14,068	\$(9,087)	\$29,873

Condensed Consolidating Statement of Cash Flows
Year Ended December 31, 2009

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
Net cash provided (used) by operating activities	\$108	\$1,079	\$1,282	\$(198)	\$2,271
Investing activities					
Gross property additions	–	(1,449)	(858)	12	(2,295)
Nuclear fuel additions	–	(78)	(122)	–	(200)
Proceeds from sales of discontinued operations and other assets, net of cash divested	–	–	1	–	1
Proceeds from sales of assets to affiliated companies	–	–	11	(11)	–
Purchases of available-for-sale securities and other investments	–	(1,548)	(802)	–	(2,350)
Proceeds from available-for-sale securities and other investments	–	1,558	756	–	2,314
Changes in advances to affiliated companies	4	(2)	(172)	170	–
Contributions to consolidated subsidiaries	(688)	–	–	688	–
Return of investment in consolidated subsidiaries	12	–	–	(12)	–
Other investing activities	–	–	(2)	–	(2)
Net cash (used) provided by investing activities	(672)	(1,519)	(1,188)	847	(2,532)
Financing activities					
Issuance of common stock	623	–	–	–	623
Dividends paid on common stock	(693)	–	–	–	(693)
Dividends paid to parent	–	(1)	(200)	201	–
Dividends paid to parent in excess of retained earnings	–	–	(12)	12	–
Payments of short-term debt with original maturities greater than 90 days	(29)	–	–	–	(29)
Net decrease in short-term debt	(500)	(371)	(110)	–	(981)
Proceeds from issuance of long-term debt, net	1,683	–	595	–	2,278
Retirement of long-term debt	–	–	(400)	–	(400)
Cash distributions to noncontrolling interests	–	(3)	–	(3)	(6)
Changes in advances from affiliated companies	–	170	–	(170)	–
Contributions from parent	–	653	49	(702)	–
Other financing activities	(2)	(9)	12	13	14
Net cash provided (used) by financing activities	1,082	439	(66)	(649)	806
Net increase (decrease) in cash and cash equivalents	518	(1)	28	–	545
Cash and cash equivalents at beginning of year	88	73	19	–	180
Cash and cash equivalents at end of year	\$606	\$72	\$47	\$–	\$725

Condensed Consolidating Statement of Cash Flows
Year Ended December 31, 2008

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
Net cash (used) provided by operating activities	\$(90)	\$221	\$1,114	(\$27)	\$1,218
Investing activities					
Gross property additions	—	(1,553)	(794)	14	(2,333)
Nuclear fuel additions	—	(43)	(179)	—	(222)
Proceeds from sales of discontinued operations and other assets, net of cash divested	—	59	13	—	72
Proceeds from sales of assets to affiliated companies	—	12	—	(12)	—
Purchases of available-for-sale securities and other investments	(7)	(783)	(800)	—	(1,590)
Proceeds from available-for-sale securities and other investments	—	788	746	—	1,534
Changes in advances to affiliated companies	123	105	8	(236)	—
Contributions to consolidated subsidiaries	(101)	—	—	101	—
Return of investment in consolidated subsidiaries	20	10	—	(30)	—
Other investing activities	—	(2)	—	—	(2)
Net cash provided (used) by investing activities	35	(1,407)	(1,006)	(163)	(2,541)
Financing activities					
Issuance of common stock	132	—	—	—	132
Dividends paid on common stock	(642)	—	—	—	(642)
Dividends paid to parent	—	(33)	—	33	—
Dividends paid to parent in excess of retained earnings	—	—	(20)	20	—
Payments of short-term debt with original maturities greater than 90 days	(176)	—	—	—	(176)
Proceeds from issuance of short-term debt with original maturities greater than 90 days	29	—	—	—	29
Net increase in short-term debt	615	371	110	—	1,096
Proceeds from issuance of long-term debt, net	—	1,475	322	—	1,797
Retirement of long-term debt	—	(577)	(300)	—	(877)
Cash distributions to noncontrolling interests	—	(85)	(10)	10	(85)
Changes in advances from affiliated companies	—	(21)	(215)	236	—
Contributions from parent	—	85	29	(114)	—
Other financing activities	—	1	(32)	5	(26)
Net cash (used) provided by financing activities	(42)	1,216	(116)	190	1,248
Net (decrease) increase in cash and cash equivalents	(97)	30	(8)	—	(75)
Cash and cash equivalents at beginning of year	185	43	27	—	255
Cash and cash equivalents at end of year	\$88	\$73	\$19	\$—	\$180

Condensed Consolidating Statement of Cash Flows
Year Ended December 31, 2007

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
Net cash provided (used) by operating activities	\$76	\$489	\$835	\$(148)	\$1,252
Investing activities					
Gross property additions	—	(1,218)	(757)	2	(1,973)
Nuclear fuel additions	—	(44)	(184)	—	(228)
Proceeds from sales of discontinued operations and other assets, net of cash divested	—	51	625	(1)	675
Purchases of available-for-sale securities and other investments	—	(640)	(773)	—	(1,413)
Proceeds from available-for-sale securities and other investments	21	640	791	—	1,452
Changes in advances to affiliated companies	(99)	(112)	(79)	290	—
Return of investment in consolidated subsidiaries	340	—	—	(340)	—
Other investing activities	(31)	32	(7)	36	30
Net cash provided (used) by investing activities	231	(1,291)	(384)	(13)	(1,457)
Financing activities					
Issuance of common stock	151	—	—	—	151
Dividends paid on common stock	(627)	—	—	—	(627)
Dividends paid to parent	—	(10)	(483)	493	—
Proceeds from issuance of short-term debt with original maturities greater than 90 days	176	—	—	—	176
Net increase in short-term debt	25	—	—	—	25
Proceeds from issuance of long-term debt, net	—	739	—	—	739
Retirement of long-term debt	—	(124)	(200)	—	(324)
Cash distributions to noncontrolling interests	—	(10)	—	—	(10)
Changes in advances from affiliated companies	—	151	129	(280)	—
Contributions from parent	—	10	44	(54)	—
Other financing activities	—	49	14	2	65
Net cash (used) provided by financing activities	(275)	805	(496)	161	195
Net increase (decrease) in cash and cash equivalents	32	3	(45)	—	(10)
Cash and cash equivalents at beginning of year	153	40	72	—	265
Cash and cash equivalents at end of year	\$185	\$43	\$27	\$—	\$255

24. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data was as follows:

Progress Energy

(in millions except per share data)	First	Second	Third	Fourth
2009				
Operating revenues	\$2,442	\$2,312	\$2,824	\$2,307
Operating income	393	379	676	324
Income from continuing operations	183	175	350	132
Net income	183	174	248	156
Net income attributable to controlling interests	182	174	247	154
Common stock data				
Basic and diluted earnings per common share				
Income from continuing operations attributable to controlling interests, net of tax	0.66	0.62	1.24	0.46
Net income attributable to controlling interests	0.66	0.62	0.88	0.55
Dividends declared per common share	0.620	0.620	0.620	0.620
Market price per share – High	40.85	38.20	40.05	42.20
– Low	31.35	33.50	35.97	36.67
2008^(a)				
Operating revenues	\$2,066	\$2,244	\$2,696	\$2,161
Operating income	365	406	591	321
Income from continuing operations	153	200	309	116
Net income	214	205	310	107
Net income attributable to controlling interests	209	205	309	107
Common stock data				
Basic and diluted earnings per common share				
Income from continuing operations attributable to controlling interests, net of tax	0.57	0.76	1.18	0.44
Net income attributable to controlling interests	0.80	0.78	1.18	0.41
Dividends declared per common share	0.615	0.615	0.615	0.620
Market price per share – High	49.16	43.58	45.52	45.60
– Low	40.54	41.00	40.11	32.60

^(a) Balances have been restated for the adoption of new accounting guidance, which modified the financial statement presentation of subsidiaries that are less than wholly owned (See Note 2).

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. Typically, weather conditions in our service territories directly influence the demand for electricity and affect the price of energy commodities necessary to provide electricity to our customers. As a result, our overall operating results may fluctuate substantially on a seasonal basis. During the fourth quarter of 2009, we recorded a cumulative prior period adjustment related to certain employee life insurance benefits. The impact of this adjustment decreased total other income, net, by \$16 million and decreased net income attributable to controlling interests by \$10 million. The prior period adjustment is not material to previously issued or current period financial statements.

PEC

Summarized quarterly financial data was as follows:

(in millions)	First	Second	Third	Fourth
2009				
Operating revenues	\$1,178	\$1,076	\$1,307	\$1,066
Operating income	249	182	367	168
Net income	128	94	208	84
Net income attributable to controlling interests	128	95	208	85
2008^(a)				
Operating revenues	\$1,068	\$1,048	\$1,266	\$1,047
Operating income	240	205	353	198
Net income	123	104	201	106
Net income attributable to controlling interests	123	104	201	106

^(a) Balances have been restated for the adoption of new accounting guidance, which modified the financial statement presentation of subsidiaries that are less than wholly owned (See Note 2).

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. Typically, weather conditions in PEC's service territories directly influence the demand for electricity and affect the price of energy commodities necessary to provide electricity to its customers. As a result, its overall operating results may fluctuate substantially on a seasonal basis. During the fourth quarter of 2009, PEC recorded a cumulative prior period adjustment related to certain employee life insurance benefits. The impact of this adjustment decreased total other income, net, by \$16 million and decreased net income attributable to controlling interests by \$10 million. The prior period adjustment is not material to previously issued or current period financial statements.

PEF

Summarized quarterly financial data was as follows:

(in millions)	First	Second	Third	Fourth
2009				
Operating revenues	\$1,262	\$1,234	\$1,516	\$1,239
Operating income	140	195	314	153
Net income	89	119	177	77
2008				
Operating revenues	\$996	\$1,194	\$1,428	\$1,113
Operating income	122	198	236	124
Net income	67	125	143	50

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. Typically, weather conditions in PEF's service territories directly influence the demand for electricity and affect the price of energy commodities necessary to provide electricity to its customers. As a result, its overall operating results may fluctuate substantially on a seasonal basis.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a) The following documents are filed as part of the report:

1. Financial Statements Filed:

See Item 8 –Financial Statements and Supplementary Data

2. Financial Statement Schedules Filed:

Consolidated Financial Statement Schedules for the Years Ended December 31, 2009, 2008 and 2007:

Schedule II – Valuation and Qualifying Accounts – Progress Energy, Inc.	246
Schedule II – Valuation and Qualifying Accounts – Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.	247
Schedule II – Valuation and Qualifying Accounts – Florida Power Corporation d/b/a Progress Energy Florida, Inc.	248

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

3. Exhibits Filed:

See EXHIBIT INDEX

PROGRESS ENERGY, INC.
Schedule II – Valuation and Qualifying Accounts
For the Years Ended
(in millions)

Description	Balance at Beginning of Period	Additions Charged to Expenses	Other Additions	Deductions ^(a)	Balance at End of Period
Valuation and qualifying accounts deducted on the balance sheet from the related assets:					
DECEMBER 31, 2009					
Uncollectible accounts	\$18	\$32	\$–	\$(32)	\$18
Inventory valuation ^(b)	–	14	–	–	14
Fossil fuel plants dismantlement reserve	145	1	–	(3)	143
Nuclear refueling outage reserve	14	18	–	(27)	5
DECEMBER 31, 2008					
Uncollectible accounts	\$29	\$24	\$–	\$(35)	\$18
Fossil fuel plants dismantlement reserve	144	1	–	–	145
Nuclear refueling outage reserve	2	12	–	–	14
DECEMBER 31, 2007					
Uncollectible accounts	\$28	\$26	\$(1)	\$(24)	\$29
Fossil fuel plants dismantlement reserve	145	1	–	(2)	144
Nuclear refueling outage reserve	16	15	–	(29)	2

^(a) Deductions from provisions represent losses or expenses for which the respective provisions were created. In the case of the provision for uncollectible accounts, such deductions are reduced by recoveries of amounts previously written off.

^(b) Relates to the impact of PEC's decision to retire 11 coal-fired units prior to the end of their estimated useful lives.

CAROLINA POWER & LIGHT COMPANY
d/b/a PROGRESS ENERGY CAROLINAS, INC.
Schedule II – Valuation and Qualifying Accounts
For the Years Ended
(in millions)

Description	Balance at Beginning of Period	Additions Charged to Expenses	Other Additions	Deductions ^(a)	Balance at End of Period
Valuation and qualifying accounts deducted on the balance sheet from the related assets:					
DECEMBER 31, 2009					
Uncollectible accounts	\$6	\$14	\$1	\$(13)	\$8
Inventory valuation ^(b)	—	14	—	—	14
DECEMBER 31, 2008					
Uncollectible accounts	\$6	\$10	\$—	\$(10)	\$6
DECEMBER 31, 2007					
Uncollectible accounts	\$5	\$10	\$2	\$(11)	\$6

^(a) Deductions from provisions represent losses or expenses for which the respective provisions were created. Such deductions are reduced by recoveries of amounts previously written off.

^(b) Relates to the impact of the decision to retire 11 coal-fired units prior to the end of their estimated useful lives.

FLORIDA POWER CORPORATION
d/b/a PROGRESS ENERGY FLORIDA, INC.
Schedule II – Valuation and Qualifying Accounts
For the Years Ended
(in millions)

Description	Balance at Beginning of Period	Additions Charged to Expenses	Other Additions	Deductions ^(a)	Balance at End of Period
Valuation and qualifying accounts deducted on the balance sheet from the related assets:					
DECEMBER 31, 2009					
Uncollectible accounts	\$11	\$18	\$(1)	\$(18)	\$10
Fossil fuel plants dismantlement reserve	145	1	—	(3)	143
Nuclear refueling outage reserve	14	18	—	(27)	5
DECEMBER 31, 2008					
Uncollectible accounts	\$10	\$14	\$1	\$(14)	\$11
Fossil fuel plants dismantlement reserve	144	1	—	—	145
Nuclear refueling outage reserve	2	12	—	—	14
DECEMBER 31, 2007					
Uncollectible accounts	\$8	\$14	\$1	\$(13)	\$10
Fossil fuel plants dismantlement reserve	145	1	—	(2)	144
Nuclear refueling outage reserve	16	15	—	(29)	2

^(a) Deductions from provisions represent losses or expenses for which the respective provisions were created. In the case of the provision for uncollectible accounts, such deductions are reduced by recoveries of amounts previously written off.

EXHIBIT A (6)(ii)

ITEM 1. FINANCIAL STATEMENTS

PROGRESS ENERGY, INC.
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
June 30, 2010

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS of INCOME

(in millions except per share data)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Operating revenues	\$ 2,372	\$ 2,312	\$ 4,907	\$ 4,754
Operating expenses				
Fuel used in electric generation	743	826	1,639	1,780
Purchased power	315	257	578	474
Operation and maintenance	505	484	985	937
Depreciation, amortization and accretion	233	226	479	506
Taxes other than on income	133	130	287	273
Other	3	10	5	12
Total operating expenses	1,932	1,933	3,973	3,982
Operating income	440	379	934	772
Other income				
Interest income	1	2	3	6
Allowance for equity funds used during construction	25	36	46	75
Other, net	5	13	-	12
Total other income, net	31	51	49	93
Interest charges				
Interest charges	199	181	390	360
Allowance for borrowed funds used during construction	(7)	(12)	(16)	(24)
Total interest charges, net	192	169	374	336
Income from continuing operations before income tax	279	261	609	529
Income tax expense	98	86	237	171
Income from continuing operations before cumulative effect of change in accounting principle	181	175	372	358
Discontinued operations, net of tax	(1)	(1)	-	(1)
Cumulative effect of change in accounting principle, net of tax	-	-	(2)	-
Net income	180	174	370	357
Net income attributable to noncontrolling interests, net of tax	-	-	-	(1)
Net income attributable to controlling interests	\$ 180	\$ 174	\$ 370	\$ 356
Average common shares outstanding – basic	290	280	287	278
Basic and diluted earnings per common share				
Income from continuing operations attributable to controlling interests, net of tax	\$ 0.62	\$ 0.62	\$ 1.29	\$ 1.28
Discontinued operations attributable to controlling interests, net of tax	-	-	-	-
Net income attributable to controlling interests	\$ 0.62	\$ 0.62	\$ 1.29	\$ 1.28
Dividends declared per common share	\$ 0.620	\$ 0.620	\$ 1.240	\$ 1.240
Amounts attributable to controlling interests				
Income from continuing operations, net of tax	\$ 181	\$ 175	\$ 370	\$ 357
Discontinued operations, net of tax	(1)	(1)	-	(1)
Net income attributable to controlling interests	\$ 180	\$ 174	\$ 370	\$ 356

See Notes to Progress Energy, Inc. Unaudited Condensed Consolidated Interim Financial Statements.

PROGRESS ENERGY, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)	June 30, 2010	December 31, 2009
ASSETS		
Utility plant		
Utility plant in service	\$ 29,728	\$ 28,918
Accumulated depreciation	(11,777)	(11,576)
Utility plant in service, net	17,951	17,342
Held for future use	48	47
Construction work in progress	1,914	1,790
Nuclear fuel, net of amortization	599	554
Total utility plant, net	20,512	19,733
Current assets		
Cash and cash equivalents	690	725
Receivables, net	999	800
Inventory	1,237	1,325
Regulatory assets	324	142
Derivative collateral posted	194	146
Income taxes receivable	21	145
Prepayments and other current assets	195	248
Total current assets	3,660	3,531
Deferred debits and other assets		
Regulatory assets	2,211	2,179
Nuclear decommissioning trust funds	1,341	1,367
Miscellaneous other property and investments	437	438
Goodwill	3,655	3,655
Other assets and deferred debits	321	333
Total deferred debits and other assets	7,965	7,972
Total assets	\$ 32,137	\$ 31,236
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 500 million shares authorized, 293 million and 281 million shares issued and outstanding, respectively	\$ 7,304	\$ 6,873
Unearned ESOP shares (- and 1 million shares, respectively)	-	(12)
Accumulated other comprehensive loss	(131)	(87)
Retained earnings	2,684	2,675
Total common stock equity	9,857	9,449
Noncontrolling interests		
Total equity	9,859	9,455
Preferred stock of subsidiaries	93	93
Long-term debt, affiliate	272	272
Long-term debt, net	11,664	11,779
Total capitalization	21,888	21,599
Current liabilities		
Current portion of long-term debt	705	406
Short-term debt	-	140
Accounts payable	954	835
Interest accrued	209	206
Dividends declared	182	175
Customer deposits	316	300
Derivative liabilities	250	190
Accrued compensation and other benefits	100	167
Other current liabilities	387	239
Total current liabilities	3,103	2,658
Deferred credits and other liabilities		
Noncurrent income tax liabilities	1,288	1,196
Accumulated deferred investment tax credits	113	117
Regulatory liabilities	2,479	2,510
Asset retirement obligations	1,200	1,170
Accrued pension and other benefits	1,330	1,339
Derivative liabilities	324	240
Other liabilities and deferred credits	412	407
Total deferred credits and other liabilities	7,146	6,979
Commitments and contingencies (Notes 12 and 13)		
Total capitalization and liabilities	\$ 32,137	\$ 31,236

See Notes to Progress Energy, Inc. Unaudited Condensed Consolidated Interim Financial Statements.

PROGRESS ENERGY, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS of CASH FLOWS

(in millions)

Six months ended June 30	2010	2009
Operating activities		
Net income	\$ 370	\$ 357
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	555	576
Deferred income taxes and investment tax credits, net	117	13
Deferred fuel (credit) cost	(137)	129
Allowance for equity funds used during construction	(46)	(75)
Other adjustments to net income	136	118
Cash (used) provided by changes in operating assets and liabilities		
Receivables	(126)	(36)
Inventory	87	(118)
Derivative collateral posted	(40)	47
Other assets	(13)	41
Income taxes, net	152	110
Accounts payable	110	(30)
Other liabilities	(6)	(37)
Net cash provided by operating activities	1,159	1,095
Investing activities		
Gross property additions	(1,116)	(1,172)
Nuclear fuel additions	(119)	(60)
Purchases of available-for-sale securities and other investments	(3,815)	(982)
Proceeds from available-for-sale securities and other investments	3,792	960
Other investing activities	14	(3)
Net cash used by investing activities	(1,244)	(1,257)
Financing activities		
Issuance of common stock, net	405	545
Dividends paid on common stock	(354)	(347)
Payments of short-term debt with original maturities greater than 90 days	-	(129)
Net decrease in short-term debt	(140)	(521)
Proceeds from issuance of long-term debt, net	591	1,337
Retirement of long-term debt	(400)	(400)
Other financing activities	(52)	(51)
Net cash provided by financing activities	50	434
Net (decrease) increase in cash and cash equivalents	(35)	272
Cash and cash equivalents at beginning of period	725	180
Cash and cash equivalents at end of period	\$ 690	\$ 452
Supplemental disclosures		
Significant noncash transactions		
Accrued property additions	\$ 274	\$ 301

See Notes to Progress Energy, Inc. Unaudited Condensed Consolidated Interim Financial Statements.

CAROLINA POWER & LIGHT COMPANY
d/b/a PROGRESS ENERGY CAROLINAS, INC.
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
June 30, 2010

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS of INCOME

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2010	2009	2010	2009
Operating revenues	\$ 1,117	\$ 1,076	\$ 2,380	\$ 2,254
Operating expenses				
Fuel used in electric generation	375	383	858	825
Purchased power	76	57	126	114
Operation and maintenance	300	283	585	542
Depreciation, amortization and accretion	120	118	238	235
Taxes other than on income	51	51	111	105
Other	(1)	2	-	2
Total operating expenses	921	894	1,918	1,823
Operating income	196	182	462	431
Other income (expense)				
Interest income	1	1	2	3
Allowance for equity funds used during construction	15	7	28	16
Other, net	4	4	(3)	(3)
Total other income, net	20	12	27	16
Interest charges				
Interest charges	53	52	103	109
Allowance for borrowed funds used during construction	(5)	(3)	(9)	(6)
Total interest charges, net	48	49	94	103
Income before income tax	168	145	395	344
Income tax expense	57	51	146	122
Income before cumulative effect of change in accounting principle	111	94	249	222
Cumulative effect of change in accounting principle, net of tax	-	-	(2)	-
Net income	111	94	247	222
Net loss attributable to noncontrolling interests, net of tax	1	1	3	1
Net income attributable to controlling interests	112	95	250	223
Preferred stock dividend requirement	-	-	(1)	(1)
Net income available to parent	\$ 112	\$ 95	\$ 249	\$ 222

See Notes to Progress Energy Carolinas, Inc. Unaudited Condensed Consolidated Interim Financial Statements.

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)	June 30, 2010	December 31, 2009
ASSETS		
Utility plant		
Utility plant in service	\$ 16,553	\$ 16,297
Accumulated depreciation	(7,631)	(7,520)
Utility plant in service, net	8,922	8,777
Held for future use	12	11
Construction work in progress	1,060	702
Nuclear fuel, net of amortization	430	396
Total utility plant, net	10,424	9,886
Current assets		
Cash and cash equivalents	206	35
Receivables, net	508	442
Receivables from affiliated companies	15	33
Notes receivable from affiliated companies	2	204
Inventory	591	677
Deferred fuel cost	101	88
Income taxes receivable	26	38
Prepayments and other current assets	61	61
Total current assets	1,510	1,578
Deferred debits and other assets		
Regulatory assets	894	873
Nuclear decommissioning trust funds	859	871
Miscellaneous other property and investments	187	199
Other assets and deferred debits	92	95
Total deferred debits and other assets	2,032	2,038
Total assets	\$ 13,966	\$ 13,502
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 200 million shares authorized, 160 million shares issued and outstanding	\$ 2,125	\$ 2,108
Unearned ESOP shares	-	(12)
Accumulated other comprehensive loss	(41)	(27)
Retained earnings	2,785	2,588
Total common stock equity	4,869	4,657
Noncontrolling interests		
	-	3
Total equity	4,869	4,660
Preferred stock		
	59	59
Long-term debt, net		
	3,688	3,703
Total capitalization	8,616	8,422
Current liabilities		
Current portion of long-term debt	6	6
Accounts payable	426	355
Payables to affiliated companies	87	72
Interest accrued	72	70
Customer deposits	101	95
Derivative liabilities	48	29
Accrued compensation and other benefits	53	86
Other current liabilities	122	50
Total current liabilities	915	763
Deferred credits and other liabilities		
Noncurrent income tax liabilities	1,327	1,258
Accumulated deferred investment tax credits	107	110
Regulatory liabilities	1,307	1,293
Asset retirement obligations	822	801
Accrued pension and other benefits	703	708
Other liabilities and deferred credits	169	147
Total deferred credits and other liabilities	4,435	4,317
Commitments and contingencies (Notes 12 and 13)		
Total capitalization and liabilities	\$ 13,966	\$ 13,502

See Notes to Progress Energy Carolinas, Inc. Unaudited Condensed Consolidated Interim Financial Statements.

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS of CASH FLOWS

(in millions)

Six months ended June 30	2010	2009
Operating activities		
Net income	\$ 247	\$ 222
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	294	286
Deferred income taxes and investment tax credits, net	55	10
Deferred fuel cost	21	92
Allowance for equity funds used during construction	(28)	(16)
Other adjustments to net income	47	52
Cash (used) provided by changes in operating assets and liabilities		
Receivables	(39)	42
Receivables from affiliated companies	18	13
Inventory	85	(60)
Other assets	(18)	32
Income taxes, net	12	63
Accounts payable	20	(43)
Payables to affiliated companies	15	(24)
Other liabilities	(12)	(23)
Net cash provided by operating activities	717	646
Investing activities		
Gross property additions	(580)	(402)
Nuclear fuel additions	(106)	(42)
Purchases of available-for-sale securities and other investments	(252)	(517)
Proceeds from available-for-sale securities and other investments	227	492
Changes in advances to affiliated companies	202	(75)
Net cash used by investing activities	(509)	(544)
Financing activities		
Dividends paid on preferred stock	(1)	(1)
Dividends paid to parent	(50)	(200)
Net decrease in short-term debt	-	(110)
Proceeds from issuance of long-term debt, net	-	595
Retirement of long-term debt	-	(400)
Contributions from parent	14	15
Other financing activities	-	(1)
Net cash used by financing activities	(37)	(102)
Net increase in cash and cash equivalents	171	-
Cash and cash equivalents at beginning of period	35	18
Cash and cash equivalents at end of period	\$ 206	\$ 18
Supplemental disclosures		
Significant noncash transactions		
Accrued property additions	\$ 158	\$ 128

See Notes to Progress Energy Carolinas, Inc. Unaudited Condensed Consolidated Interim Financial Statements.

FLORIDA POWER CORPORATION
d/b/a PROGRESS ENERGY FLORIDA, INC.
UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
June 30, 2010

UNAUDITED CONDENSED STATEMENTS of INCOME

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2010	2009	2010	2009
Operating revenues	\$ 1,252	\$ 1,234	\$ 2,522	\$ 2,496
Operating expenses				
Fuel used in electric generation	368	443	781	955
Purchased power	239	200	452	360
Operation and maintenance	208	204	413	406
Depreciation, amortization and accretion	110	105	234	265
Taxes other than on income	83	80	176	168
Other	-	7	-	7
Total operating expenses	1,008	1,039	2,056	2,161
Operating income	244	195	466	335
Other income				
Interest income	1	-	1	1
Allowance for equity funds used during construction	10	29	18	59
Other, net	1	7	3	7
Total other income, net	12	36	22	67
Interest charges				
Interest charges	70	64	134	131
Allowance for borrowed funds used during construction	(2)	(9)	(7)	(18)
Total interest charges, net	68	55	127	113
Income before income tax	188	176	361	289
Income tax expense	69	57	140	81
Net income	119	119	221	208
Preferred stock dividend requirement	-	-	(1)	(1)
Net income available to parent	\$ 119	\$ 119	\$ 220	\$ 207

See Notes to Progress Energy Florida, Inc. Unaudited Condensed Interim Financial Statements.

FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.

UNAUDITED CONDENSED BALANCE SHEETS

(in millions)	June 30, 2010	December 31, 2009
ASSETS		
Utility plant		
Utility plant in service	\$ 12,993	\$ 12,438
Accumulated depreciation	(4,075)	(3,987)
Utility plant in service, net	8,918	8,451
Held for future use	36	36
Construction work in progress	854	1,088
Nuclear fuel, net of amortization	169	158
Total utility plant, net	9,977	9,733
Current assets		
Cash and cash equivalents	113	17
Receivables, net	488	356
Receivables from affiliated companies	6	8
Inventory	647	648
Regulatory assets	223	54
Derivative collateral posted	174	139
Deferred tax assets	78	115
Prepayments and other current assets	18	80
Total current assets	1,747	1,417
Deferred debits and other assets		
Regulatory assets	1,317	1,307
Nuclear decommissioning trust funds	482	496
Miscellaneous other property and investments	43	42
Other assets and deferred debits	127	105
Total deferred debits and other assets	1,969	1,950
Total assets	\$ 13,693	\$ 13,100
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 60 million shares authorized, 100 shares issued and outstanding	\$ 1,747	\$ 1,744
Accumulated other comprehensive (loss) income	(7)	3
Retained earnings	2,912	2,743
Total common stock equity	4,652	4,490
Preferred stock	34	34
Long-term debt, net	4,481	3,883
Total capitalization	9,167	8,407
Current liabilities		
Current portion of long-term debt	-	300
Notes payable to affiliated companies	7	221
Accounts payable	509	451
Payables to affiliated companies	56	62
Interest accrued	76	72
Customer deposits	215	205
Derivative liabilities	179	161
Accrued compensation and other benefits	29	53
Other current liabilities	247	89
Total current liabilities	1,318	1,614
Deferred credits and other liabilities		
Noncurrent income tax liabilities	877	767
Regulatory liabilities	1,060	1,103
Asset retirement obligations	378	369
Accrued pension and other benefits	389	395
Capital lease obligations	204	208
Derivative liabilities	223	174
Other liabilities and deferred credits	77	63
Total deferred credits and other liabilities	3,208	3,079
Commitments and contingencies (Notes 12 and 13)		
Total capitalization and liabilities	\$ 13,693	\$ 13,100

See Notes to Progress Energy Florida, Inc. Unaudited Condensed Interim Financial Statements.

FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.

UNAUDITED CONDENSED STATEMENTS of CASH FLOWS

(in millions)

Six months ended June 30	2010	2009
Operating activities		
Net income	\$ 221	\$ 208
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	244	280
Deferred income taxes and investment tax credits, net	138	(41)
Deferred fuel (credit) cost	(158)	37
Allowance for equity funds used during construction	(18)	(59)
Other adjustments to net income	62	47
Cash (used) provided by changes in operating assets and liabilities		
Receivables	(87)	(76)
Receivables from affiliated companies	2	8
Inventory	1	(58)
Derivative collateral posted	(27)	38
Other assets	(10)	22
Income taxes, net	122	16
Accounts payable	98	16
Payables to affiliated companies	(6)	(7)
Other liabilities	28	14
Net cash provided by operating activities	610	445
Investing activities		
Gross property additions	(543)	(770)
Nuclear fuel additions	(13)	(18)
Purchases of available-for-sale securities and other investments	(3,505)	(415)
Proceeds from available-for-sale securities and other investments	3,508	420
Other investing activities	15	(4)
Net cash used by investing activities	(538)	(787)
Financing activities		
Dividends paid on preferred stock	(1)	(1)
Dividends paid to parent	(50)	-
Net decrease in short-term debt	-	(371)
Proceeds from issuance of long-term debt, net	591	-
Retirement of long-term debt	(300)	-
Changes in advances from affiliated companies	(214)	406
Contributions from parent	-	310
Other financing activities	(2)	(2)
Net cash provided by financing activities	24	342
Net increase in cash and cash equivalents	96	-
Cash and cash equivalents at beginning of period	17	19
Cash and cash equivalents at end of period	\$ 113	\$ 19
Supplemental disclosures		
Significant noncash transactions		
Accrued property additions	\$ 113	\$ 172

See Notes to Progress Energy Florida, Inc. Unaudited Condensed Interim Financial Statements.

PROGRESS ENERGY, INC.
CAROLINA POWER & LIGHT COMPANY d/b/a/ PROGRESS ENERGY CAROLINAS, INC.
FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.
COMBINED NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

INDEX TO APPLICABLE COMBINED NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS BY REGISTRANT

Each of the following combined notes to the unaudited condensed interim financial statements of the Progress Registrants are applicable to Progress Energy, Inc. but not to each of PEC and PEF. The following table sets forth which notes are applicable to each of PEC and PEF. The notes that are not listed below for PEC or PEF are not, and shall not be deemed to be, part of PEC's or PEF's financial statements contained herein.

<u>Registrant</u>	<u>Applicable Notes</u>
PEC	1 through 9 and 11 through 13
PEF	1 through 9 and 11 through 13

PROGRESS ENERGY, INC.
CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.
FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.
COMBINED NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

In this report, Progress Energy, which includes Progress Energy, Inc. holding company (the Parent) and its regulated and nonregulated subsidiaries on a consolidated basis, is at times referred to as “we,” “us” or “our.” When discussing Progress Energy’s financial information, it necessarily includes the results of Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. (PEC) and Florida Power Corporation d/b/a Progress Energy Florida, Inc. (PEF) (collectively, the Utilities). The term “Progress Registrants” refers to each of the three separate registrants: Progress Energy, PEC and PEF. The information in these combined notes relates to each of the Progress Registrants as noted in the Index to Applicable Combined Notes to Unaudited Condensed Interim Financial Statements by Registrant. However, neither of the Utilities makes any representation as to information related solely to Progress Energy or the subsidiaries of Progress Energy other than itself.

PROGRESS ENERGY

The Parent is a holding company headquartered in Raleigh, N.C. As such, we are subject to regulation by the Federal Energy Regulatory Commission (FERC) under the regulatory provisions of the Public Utility Holding Company Act of 2005 (PUHCA 2005).

Our reportable segments are PEC and PEF, both of which are primarily engaged in the generation, transmission, distribution and sale of electricity. The Corporate and Other segment primarily includes amounts applicable to the activities of the Parent and Progress Energy Service Company, LLC (PESC) and other miscellaneous nonregulated businesses (Corporate and Other) that do not separately meet the quantitative disclosure requirements as a reportable business segment. See Note 10 for further information about our segments.

PEC

PEC is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina and South Carolina. PEC’s subsidiaries are involved in insignificant nonregulated business activities. PEC is subject to the regulatory jurisdiction of the North Carolina Utilities Commission (NCUC), Public Service Commission of South Carolina (SCPSC), the United States Nuclear Regulatory Commission (NRC) and the FERC.

PEF

PEF is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in west central Florida. PEF is subject to the regulatory jurisdiction of the Florida Public Service Commission (FPSC), the NRC and the FERC.

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 annual financial statements. The December 31, 2009 condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. Because the accompanying interim financial statements do not include all of the information and footnotes required by GAAP for annual financial statements, they should be read in conjunction with the audited financial statements and notes thereto included in the Progress Registrants’ annual report on Form 10-K for the fiscal year ended December 31, 2009 (2009 Form 10-K).

The Utilities collect from customers certain excise taxes levied by the state or local government upon the customers. The Utilities account for sales and use tax on a net basis and gross receipts tax, franchise taxes and other excise taxes on a gross basis.

The amount of gross receipts tax, franchise taxes and other excise taxes included in electric operating revenues and taxes other than on income in the statements of income were as follows:

(in millions)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Progress Energy	\$ 81	\$ 77	\$ 164	\$ 156
PEC	27	26	57	52
PEF	54	51	107	104

The amounts included in these financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary to fairly present the Progress Registrants' financial position and results of operations for the interim periods. Unless otherwise noted, all adjustments are normal and recurring in nature. Due to seasonal weather variations, the impact of regulatory orders received, and the timing of outages of electric generating units, especially nuclear-fueled units, the results of operations for interim periods are not necessarily indicative of amounts expected for the entire year or future periods.

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

Certain amounts for 2009 have been reclassified to conform to the 2010 presentation.

C. CONSOLIDATION OF VARIABLE INTEREST ENTITIES

We consolidate all voting interest entities in which we own a majority voting interest and all variable interest entities (VIEs) for which we are the primary beneficiary. We determine whether we are the primary beneficiary of a VIE through a qualitative analysis that identifies which variable interest holder has the controlling financial interest in the VIE. The variable interest holder who has both of the following has the controlling financial interest and is the primary beneficiary: (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (2) the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. In performing our analysis, we consider all relevant facts and circumstances, including: the design and activities of the VIE, the terms of the contracts the VIE has entered into, the nature of the VIE's variable interests issued and how they were negotiated with or marketed to potential investors, and which parties participated significantly in the design or redesign of the entity.

In June 2009, the Financial Accounting Standards Board (FASB) issued new guidance which made significant changes to the model for determining who should consolidate a VIE and addressed how often this assessment should be performed. The guidance was effective for us on January 1, 2010 (see Note 2). As a result of the adoption, we and PEC deconsolidated two limited partnerships that qualify for federal affordable housing and historic tax credits under Section 42 of the Internal Revenue Code (the Code) and recognized a \$(2) million cumulative effect adjustment during the six months ended June 30, 2010.

PROGRESS ENERGY

Progress Energy, through its subsidiary PEC, is the managing member and primary beneficiary of, and consolidates a limited partnership which qualifies for federal affordable housing and historic tax credits under Section 42 of the Code. Our variable interests are debt and equity investments in the VIE. There were no changes to our assessment of the primary beneficiary during 2009 or for the period ended June 30, 2010. No financial or other support has been provided to the VIE during the periods presented.

The following table sets forth the carrying amount and classification of our investment in the partnership as reflected in the Consolidated Balance Sheets:

(in millions)	June 30, 2010	December 31, 2009
Miscellaneous other property and investments	\$ 15	\$ 17
Other assets and deferred debits	1	1
Accounts payable	5	4

The assets of the VIE are collateral for, and can only be used to settle, its obligations. The creditors of the VIE do not have recourse to our general credit or the general credit of PEC and there are no other arrangements that could expose us to losses.

Progress Energy, through its subsidiary PEC, has interests in two entities resulting from capital lease agreements. Both entities are VIEs and were established to lease buildings to PEC. Our maximum exposure to loss due to these capital lease agreements is a \$7.5 million mandatory fixed price purchase option for one of the buildings. Total lease payments to these counterparties under the lease agreements were \$1 million for the three and six months ended June 30, 2010 and 2009. We have requested the necessary information to consolidate these entities; both entities from which the necessary financial information was requested declined to provide the information to us, and, accordingly, we have applied the information scope exception provided by GAAP to the entities. We believe the effect of consolidating the entities would have an insignificant impact on our common stock equity, net earnings or cash flows. However, because we have not received any financial information from the counterparties, the impact cannot be determined at this time.

PEC

See discussion of PEC's variable interests in VIEs within the Progress Energy section.

PEF

PEF has no significant variable interests in VIEs.

D. SIGNIFICANT ACCOUNTING POLICIES

With the exception of the adoption of an accounting policy related to federal grants (discussed below) and new guidance relating to VIEs (See Note 2), there have been no material changes to our significant accounting policies, as compared to the significant accounting policies described in our 2009 Form 10-K.

FEDERAL GRANT

The American Recovery and Reinvestment Act, signed into law in February 2009, contains provisions promoting energy efficiency and renewable energy. On April 28, 2010, we accepted a grant from the United States Department of Energy (DOE) for \$200 million in federal matching infrastructure funds in support of our Smart Grid initiatives. PEC and PEF each will receive up to \$100 million over a three-year period as project work progresses. The DOE will provide reimbursement for 50 percent of allowable project costs, as incurred, up to the DOE's maximum obligation of \$200 million. Projects funded by the grant must be completed by April 2013.

In accounting for the federal grant, we have elected to reduce the cost basis of applicable Smart Grid capital projects. Once these capital projects are placed into service, this election will reduce depreciation expense over the life of the assets. Other project costs incurred, which will be reimbursed by the DOE, are reflected in prepayments and other current assets on the Consolidated Balance Sheets.

We have incurred \$60 million of allowable Smart Grid project costs through June 30, 2010. As of June 30, 2010, the reimbursable portion of these project costs are reflected in receivables, net and other current liabilities on the Consolidated Balance Sheets. On July 23, 2010, we submitted to the DOE our initial request for reimbursement of \$30 million, which represents 50 percent of allowable Smart Grid project costs incurred.

2. NEW ACCOUNTING STANDARDS

CONSOLIDATIONS

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities." Subsequently, the FASB issued Accounting Standards Update (ASU) 2009-17, "Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities," which codified SFAS No. 167 in the Accounting Standards Codification (ASC). This guidance made significant changes to the model for determining who should consolidate a VIE, addressed how often this assessment should be performed, required all existing arrangements with VIEs to be evaluated, and was adopted through a cumulative-effect adjustment. This guidance was effective for us on January 1, 2010. See Note 1C for information regarding our implementation of ASU 2009-17 and its impact on our and the Utilities' financial position and results of operations.

FAIR VALUE MEASUREMENT AND DISCLOSURES

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements," which amends ASC 820 to clarify certain existing disclosure requirements and to require a number of additional disclosures, including amounts and reasons for significant transfers between the three levels of the fair value hierarchy, and presentation of certain information in the reconciliation of recurring Level 3 measurements on a gross basis. ASU 2010-06 was effective for us on January 1, 2010, with certain disclosures effective for periods beginning January 1, 2011. The initial adoption of ASU 2010-06 resulted in additional disclosure in the notes to the financial statements but did not have an impact on our or the Utilities' financial position or results of operations.

3. REGULATORY MATTERS

A. PEC RETAIL RATE MATTERS

FUEL COST RECOVERY

On June 4, 2010, PEC filed with the NCUC for a decrease in the fuel rate charged to its North Carolina ratepayers. PEC is asking the NCUC to approve a \$170 million decrease in the fuel rates. This decrease is driven by declining fuel prices. If approved, the decrease would take effect December 1, 2010, and would reduce residential electric bills by \$5.60 per 1,000 kWh for fuel recovery. As discussed under "Demand-side Management and Energy-efficiency Cost Recovery," PEC also filed with the NCUC for an increase in the demand-side management (DSM) and energy-efficiency (EE) rate. Additionally on June 4, 2010, PEC filed for a decrease in the North Carolina Renewable Energy and Energy Efficiency Portfolio Standard (NC REPS) rate, which if approved would take effect on December 1, 2010. If approved as filed, the net impact of the three filings would result in an average reduction in residential electric bills of 3.9 percent. We cannot predict the outcome of these matters.

On June 23, 2010, the SCPSC approved PEC's request for a decrease in the fuel rate charged to its South Carolina ratepayers. The \$17 million decrease in fuel rates is driven by declining fuel prices. The decrease was effective July 1, 2010, and decreased residential electric bills by \$2.73 per 1,000 kWh for fuel cost recovery. PEC also filed with the SCPSC for an increase in the DSM and EE rate effective July 1, 2010, which was approved on a provisional basis on June 30, 2010, pending review by the South Carolina Office of Regulatory Staff. If approved as filed, the net impact of the two filings would result in an average reduction in residential electric bills of 1.7 percent. We cannot predict the outcome of these matters.

DEMAND-SIDE MANAGEMENT AND ENERGY-EFFICIENCY COST RECOVERY

PEC is allowed to recover the costs of DSM and EE programs in North Carolina and South Carolina through an annual DSM and EE clause in each jurisdiction. The cost-recovery rider application in South Carolina has been approved by the SCPSC on a provisional basis pending a review by the South Carolina Office of Regulatory Staff.

PEC is allowed to capitalize DSM and EE costs intended to produce future benefits. In addition, the NCUC and the SCPSC have approved other forms of financial incentives for DSM and EE programs, including the recovery of net lost revenues and a performance incentive. DSM programs include, but are not limited to, any program or initiative that shifts the timing of electricity use from peak to nonpeak periods and includes load management, electricity system and operating controls, direct load control, interruptible load and electric system equipment and operating controls. EE programs include any equipment, physical or program change implemented after January 1, 2007, that results in less energy used to perform the same function. PEC has implemented a series of DSM and EE programs and will continue to pursue additional programs, which must be approved by the respective utility commissions. We cannot predict the outcome of DSM and EE filings currently pending approval or whether the implemented programs will produce the expected operational and economic results.

On June 4, 2010, PEC filed with the NCUC for an increase in the DSM and EE rate charged to its North Carolina ratepayers. PEC is asking the NCUC to approve a \$31 million increase in the DSM and EE rates. If approved, the increase would take effect December 1, 2010, and would increase residential electric bills by \$1.53 per 1,000 kWh for DSM and EE cost recovery. We cannot predict the outcome of this matter.

RENEWABLE ENERGY PORTFOLIO STANDARDS COST RECOVERY

PEC is required to file an annual NC REPS compliance report with the NCUC demonstrating the actions it has taken to comply with the NC REPS requirement. Compliance with the NC REPS requirement is measured via renewable energy certificates (REC) earned after January 1, 2008. North Carolina electric power suppliers with a renewable energy compliance obligation, including PEC, are participating in the REC tracking system, which came online July 1, 2010.

OTHER MATTERS

On October 13, 2008, the NCUC issued a Certificate of Public Convenience and Necessity allowing PEC to proceed with plans to construct an approximately 600-MW combined cycle dual fuel-capable generating facility at its Richmond County generation site to provide additional generating and transmission capacity to meet the growing energy demands of southern and eastern North Carolina. PEC projects that the generating facility and related transmission will be in service by June 2011.

On October 22, 2009, the NCUC issued its order granting PEC a Certificate of Public Convenience and Necessity to construct a 950-MW combined cycle natural gas-fueled electric generating facility at a site in Wayne County, N.C. PEC projects that the generating facility will be in service by January 2013.

On December 1, 2009, PEC filed with the NCUC a plan to retire no later than December 31, 2017, all of its coal-fired generating facilities in North Carolina that do not have scrubbers. These facilities total approximately 1,500 MW at four sites. PEC intends to continue to depreciate these units using the current depreciation rates on file with the NCUC and the SCPSC until PEC completes and files a new depreciation study.

On June 9, 2010, the NCUC issued its order granting PEC a Certificate of Public Convenience and Necessity to construct a 620-MW combined cycle natural gas-fueled electric generating facility at a site in New Hanover County, N.C. to replace the existing coal-fired generation at this site. PEC projects that the generating facility will be in service by late 2013 or early 2014.

B. PEF RETAIL RATE MATTERS

BASE RATES

On January 11, 2010, the FPSC approved a base rate increase for PEF of \$132 million effective January 1, 2010, which represents the annualized impact of the rate increase that was approved and effective July 2009 for the repowered Bartow Plant. The FPSC authorized PEF the opportunity to earn a return on equity (ROE) of 10.5 percent. Subsequently, PEF filed petitions for a motion for reconsideration and approval of an accounting order with the FPSC.

On June 1, 2010, the FPSC approved a settlement agreement between PEF and the interveners, with the exception of the Florida Association for Fairness in Ratemaking, to the 2009 rate case and to an accounting order petition filed by PEF in 2010. As part of the settlement, PEF withdrew its motion for reconsideration of the rate case order and its accounting order petition. Among other provisions, under the terms of the settlement agreement, PEF will maintain base rates at current levels through the last billing cycle of 2012. The settlement agreement also provides that PEF will have the discretion to reduce depreciation expense (cost of removal component) by up to \$150 million in 2010, up to \$250 million in 2011, and up to any remaining balance in the cost of removal component of the depreciation reserve in 2012 until the earlier of (a) PEF's applicable cost of removal reserve reaches zero, or (b) the expiration of the settlement agreement at the end of 2012. In the event PEF reduces depreciation expense by less than the annual amounts for 2010 or 2011, PEF may carry forward (i.e., increase the annual cap by) any unused cost of removal reserve amounts in subsequent years during the term of the agreement. The balance of the cost of removal reserve is impacted by accruals in accordance with PEF's latest depreciation study, removal costs expended and reductions in depreciation expense as permitted by the settlement agreement. For the three and six months ended June 30, 2010, PEF recognized a \$10 million reduction in depreciation expense pursuant to the settlement agreement. PEF's applicable cost of removal reserve of \$516 million is recorded as a regulatory liability on its June 30, 2010 Balance Sheet. The settlement agreement also provides that if PEF's actual retail base rate earnings fall below a 9.5 percent ROE on an adjusted or pro forma basis, as reported on a historical 12-month basis during the term of the agreement, PEF may seek general, limited, or interim base rate relief, or any combination thereof. Prior to requesting any such relief, PEF must have reflected on its referenced surveillance report associated depreciation expense reductions of at least \$150 million. The settlement agreement does not preclude PEF from requesting the FPSC to approve the recovery of costs (a) that are of a type which traditionally and historically would be, have been, or are presently recovered through cost-recovery clauses or surcharges, or (b) that are incremental costs not currently recovered in base rates which the legislature or FPSC determines are clause recoverable, or (c) which are recoverable through base rates under the nuclear cost-recovery legislation or the FPSC's nuclear cost-recovery rule. PEF also may, at its discretion, accelerate in whole or in part the amortization of certain regulatory assets over the term of the settlement agreement. Finally, PEF will be allowed to recover the costs of named storms on an expedited basis. Specifically, 60 days following the filing of a cost-recovery petition with the FPSC and based on a 12-month recovery period PEF can begin recovery, subject to refund, of up to \$4.00 per 1,000 kWh on monthly residential customer bills for storm costs. In the event the storm costs exceed that level, any excess additional costs will be deferred and recovered in a subsequent year or years as determined by the FPSC.

On March 25, 2010, the FPSC opened a docket to review PEF's current allowance for funds used during construction (AFUDC) rate. On May 20, 2010, PEF filed with the FPSC prescribed schedules for the rolling twelve-month period ended March 31, 2010, with an effective date of April 1, 2010, based on its updated authorized ROE and all adjustments approved on January 11, 2010, in PEF's base rate case. The FPSC is scheduled to address this matter on August 31, 2010, with an order expected in September 2010. We cannot predict the outcome of this matter.

NUCLEAR COST RECOVERY

Levy Nuclear

In 2008, the FPSC granted PEF's petition for an affirmative Determination of Need and related orders requesting cost-recovery under Florida's nuclear cost-recovery rule for PEF's proposed Levy Units 1 and 2 nuclear power plants (Levy), together with the associated facilities, including transmission lines and substation facilities. Levy Units 1 and 2 are needed to maintain electric system reliability and integrity, provide fuel and generating diversity, and to allow PEF to continue to provide adequate electricity to its customers at a reasonable cost. The proposed Levy units will be advanced passive light water nuclear reactors, each with a generating capacity of approximately 1,100 MW. The petition included projections that Levy Unit 1 would be placed in service by June 2016 and Levy Unit 2 by June 2017. The filed, nonbinding project cost estimate for Levy Units 1 and 2 was approximately \$14 billion for generating facilities and approximately \$3 billion for associated transmission facilities.

In PEF's 2010 nuclear cost-recovery filing (See "Cost Recovery"), PEF identified a schedule shift in the Levy project that resulted from the NRC's 2009 determination that certain schedule-critical work that PEF had proposed

to perform within the scope of its Limited Work Authorization request submitted with the combined operating license (COL) application will not be authorized until the NRC issues the COL. Consequently, excavation and foundation preparation work anticipated in the initial schedule cannot begin until the COL is issued, resulting in a project shift of at least 20 months. Since then, regulatory and economic conditions identified in the 2010 nuclear cost-recovery filing have changed such that major construction activities on the Levy project are being postponed until after the NRC issues the COL, which is expected to be in late 2012 if the current licensing schedule remains on track. Taking into account cost, potential carbon regulation, fossil fuel price volatility and the benefits of fuel diversification, we consider Levy to be PEF's preferred baseload generation option. Along with the FPSC's annual prudence reviews, we will continue to evaluate the project on an ongoing basis based on certain criteria, including, but not limited to, public, regulatory and political support; adequate financial cost-recovery mechanisms; appropriate levels of joint owner participation; customer rate impacts; project feasibility, including comparison to other generation options, DSM and EE programs; and availability and terms of capital financing.

Crystal River Unit No. 3 Nuclear Plant Uprate

In 2007, the FPSC issued an order approving PEF's Determination of Need petition related to a multi-stage uprate of its Crystal River Unit No. 3 Nuclear Plant (CR3) that will increase CR3's gross output by approximately 180 MW by 2012. PEF implemented the first stage's design modifications in 2008. PEF will apply for the required license amendment for the third stage's design modification.

Cost Recovery

In 2009, pursuant to the FPSC nuclear cost-recovery rule, PEF filed a petition to recover \$446 million through the capacity cost-recovery clause (CCRC), which primarily consisted of preconstruction and carrying costs incurred or anticipated to be incurred during 2009 and the projected 2010 costs associated with the Levy and CR3 uprate projects. In an effort to help mitigate the initial price impact on its customers, as part of its filing, PEF proposed collecting certain costs over a five-year period, with associated carrying costs on the unrecovered balance. The FPSC approved the alternate proposal allowing PEF to recover revenue requirements associated with the nuclear cost-recovery clause through the CCRC beginning with the first billing cycle of January 2010. The remainder, with minor adjustments, will also be recovered through the CCRC. In adopting PEF's proposed rate management plan for 2010, the FPSC permitted PEF to annually reconsider changes to the recovery of deferred amounts to afford greater flexibility to manage future rate impacts. The rate management plan includes the reclassification to the nuclear cost-recovery clause regulatory asset of \$198 million of capacity revenues and the accelerated amortization of \$76 million of preconstruction costs. The cumulative amount of \$274 million was recorded as a nuclear cost-recovery regulatory asset at December 31, 2009, and is projected to be recovered by 2014.

On April 30, 2010, PEF filed its annual nuclear cost-recovery filing with the FPSC to recover \$164 million which includes recovery of pre-construction, carrying and CCRC recoverable operations and maintenance (O&M) costs incurred or anticipated to be incurred during 2011, recovery of \$60 million of the 2009 deferral in 2011, as well as the estimated actual true-up of 2010 costs associated with the Levy and CR3 uprate projects. This results in an estimated decrease in the nuclear cost-recovery charge of \$1.46 per 1,000 kWh for residential customers, which if approved, would begin with the first January 2011 billing cycle. The FPSC has scheduled hearings in this matter for August 24-27, 2010, with a decision expected in October 2010. We cannot predict the outcome of this matter.

CR3 OUTAGE

In September 2009, CR3 began an outage for normal refueling and maintenance as well as its uprate project to increase its generating capability and to replace two steam generators. During preparations to replace the steam generators, workers discovered a delamination within the concrete of the outer wall of the containment structure, which has resulted in an extension of the outage. After a comprehensive analysis, PEF has determined that the concrete delamination at CR3 was caused by redistribution of stresses on the containment wall that occurred when we created an opening to accommodate the replacement of the unit's steam generators. We are pursuing a detailed repair plan that would achieve the unit's return to service during the fourth quarter of 2010. The actual return to service date will be determined by a number of factors, including regulatory reviews with the NRC and other agencies as appropriate, emergent work, final engineering designs and testing, weather and other developments.

B. RECONCILIATION OF TOTAL EQUITY

PROGRESS ENERGY

The consolidated financial statements include the accounts of Progress Energy and its majority owned subsidiaries. Noncontrolling interests principally represent minority shareholders' proportionate share of the equity of a subsidiary and a VIE (See Note 1C).

The following table presents changes in total equity for the year to date:

(in millions)	Total Common Stock Equity		Noncontrolling Interests		Total Equity
Balance, December 31, 2009	\$	9,449	\$	6	\$ 9,455
Net income (loss)^(a)		370		(2)	368
Other comprehensive loss		(44)		-	(44)
Issuance of shares through offerings and stock-based compensation plans (See Note 4D)		443		-	443
Dividends declared		(361)		-	(361)
Distributions to noncontrolling interests		-		(2)	(2)
Balance, June 30, 2010	\$	9,857	\$	2	\$ 9,859
Balance, December 31, 2008	\$	8,687	\$	6	\$ 8,693
Net income (loss) ^(a)		356		(1)	355
Other comprehensive income		20		-	20
Issuance of shares through offerings and stock-based compensation plans (See Note 4D)		582		-	582
Dividends declared		(356)		-	(356)
Distributions to noncontrolling interests		-		(1)	(1)
Other		-		2	2
Balance, June 30, 2009	\$	9,289	\$	6	\$ 9,295

^(a) For the six months ended June 30, 2010, consolidated net income of \$370 million includes \$2 million attributable to preferred shareholders of subsidiaries, which is not a component of total equity and is excluded from the table above. For the six months ended June 30, 2009, consolidated net income of \$357 million includes \$2 million attributable to preferred shareholders of subsidiaries, which is not a component of total equity and is excluded from the table above.

PEC

The consolidated financial statements include the accounts of PEC and its majority owned subsidiaries. Noncontrolling interests principally represent minority shareholders' proportionate share of the equity of a VIE (see Note 1C).

The following table presents changes in total equity for the year to date:

(in millions)	Total Common Stock Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2009	\$ 4,657	\$ 3	\$ 4,660
Net income (loss)	250	(3)	247
Other comprehensive loss	(14)		(14)
Issuance of shares through stock-based compensation plans	29	-	29
Dividends paid to parent	(50)	-	(50)
Preferred stock dividends at stated rate	(1)	-	(1)
Tax benefit dividend	(2)	-	(2)
Balance, June 30, 2010	\$ 4,869	\$ -	\$ 4,869
 Balance, December 31, 2008	 \$ 4,301	 \$ 4	 \$ 4,305
Net income (loss)	223	(1)	222
Other comprehensive income	4	-	4
Issuance of shares through stock-based compensation plans	29	-	29
Dividends paid to parent	(200)	-	(200)
Preferred stock dividends at stated rate	(1)	-	(1)
Tax benefit dividend	(2)	-	(2)
Balance, June 30, 2009	\$ 4,354	\$ 3	\$ 4,357

PEF

Interim disclosures of changes in equity are required if the reporting entity has less than wholly-owned subsidiaries, of which PEF has none. Therefore, an equity reconciliation for PEF has not been provided.

C. COMPREHENSIVE INCOME

PROGRESS ENERGY

(in millions)	Three months ended June 30,	
	2010	2009
Net income	\$ 180	\$ 174
Other comprehensive income (loss)		
Reclassification adjustments included in net income		
Change in cash flow hedges (net of tax expense of \$1 and \$1, respectively)	2	2
Change in unrecognized items for pension and other postretirement benefits (net of tax expense of \$- and \$1, respectively)	1	1
Net unrealized (losses) gains on cash flow hedges (net of tax benefit (expense) of \$28 and \$(5), respectively)	(44)	8
Other (net of tax expense of \$-)	1	-
Other comprehensive (loss) income	(40)	11
Comprehensive income	140	185
Comprehensive income attributable to noncontrolling interests	-	-
Comprehensive income attributable to controlling interests	\$ 140	\$ 185

(in millions)	Six months ended June 30,	
	2010	2009
Net income	\$ 370	\$ 357
Other comprehensive income (loss)		
Reclassification adjustments included in net income		
Change in cash flow hedges (net of tax expense of \$2 and \$2, respectively)	3	3
Change in unrecognized items for pension and other postretirement benefits (net of tax expense of \$1 and \$1, respectively)	2	2
Net unrealized (losses) gains on cash flow hedges (net of tax benefit (expense) of \$32 and \$(9), respectively)	(50)	14
Other (net of tax expense of \$-)	1	1
Other comprehensive (loss) income	(44)	20
Comprehensive income	326	377
Comprehensive income attributable to noncontrolling interests	-	(1)
Comprehensive income attributable to controlling interests	\$ 326	\$ 376

PEC

(in millions)	Three months ended June 30,	
	2010	2009
Net income	\$ 111	\$ 94
Other comprehensive income (loss)		
Reclassification adjustments included in net income		
Change in cash flow hedges (net of tax expense of \$1 and \$1, respectively)	1	2
Net unrealized (losses) gains on cash flow hedges (net of tax benefit (expense) of \$10 and \$(2), respectively)	(15)	2
Other comprehensive (loss) income	(14)	4
Comprehensive income	97	98
Comprehensive loss attributable to noncontrolling interests	1	1
Comprehensive income attributable to controlling interests	\$ 98	\$ 99

(in millions)	Six months ended June 30,	
	2010	2009
Net income	\$ 247	\$ 222
Other comprehensive income (loss)		
Reclassification adjustments included in net income		
Change in cash flow hedges (net of tax expense of \$1 and \$1, respectively)	2	2
Net unrealized (losses) gains on cash flow hedges (net of tax benefit (expense) of \$10 and \$(2), respectively)	(16)	2
Other comprehensive (loss) income	(14)	4
Comprehensive income	233	226
Comprehensive loss attributable to noncontrolling interests	3	1
Comprehensive income attributable to controlling interests	\$ 236	\$ 227

PEF

(in millions)	Three months ended June 30,	
	2010	2009
Net income	\$ 119	\$ 119
Other comprehensive income (loss)		
Net unrealized (losses) gains on cash flow hedges (net of tax benefit (expense) of \$4 and \$(2), respectively)	(7)	3
Other comprehensive (loss) income	(7)	3
Comprehensive income	\$ 112	\$ 122

(in millions)	Six months ended June 30,	
	2010	2009
Net income	\$ 221	\$ 208
Other comprehensive income (loss)		
Net unrealized (losses) gains on cash flow hedges (net of tax benefit (expense) of \$7 and \$(2), respectively)	(10)	3
Other comprehensive (loss) income	(10)	3
Comprehensive income	\$ 211	\$ 211

D. COMMON STOCK

At June 30, 2010 and December 31, 2009, we had 500 million shares of common stock authorized under our charter, of which 293 million shares and 281 million shares, respectively, were outstanding. We periodically issue shares of common stock through the Progress Energy 401(k) Savings & Stock Ownership Plan (401(k)), the Progress Energy Investor Plus Plan (IPP) and for other benefit plans.

The following table presents information for our common stock issuances:

	Three months ended June 30,			
	2010		2009	
(in millions)	Shares	Net Proceeds	Shares	Net Proceeds
Total issuances	5.4	\$ 208	-	\$ -
Issuances through 401(k) and/or IPP	5.4	208	-	-

	Six months ended June 30,			
	2010		2009	
(in millions)	Shares	Net Proceeds	Shares	Net Proceeds
Total issuances	11.5	\$ 405	15.5	\$ 545
Issuances under an underwritten public offering ^(a)	-	-	14.4	523
Issuances through 401(k) and/or IPP	10.7	405	0.6	22

^(a) The shares issued under an underwritten public offering were issued on January 12, 2009, at a public offering price of \$37.50.

5. PREFERRED STOCK OF SUBSIDIARIES

All of our preferred stock was issued by the Utilities. The preferred stock is considered temporary equity due to certain provisions that could require us to redeem the preferred stock for cash. In the event dividends payable on PEC or PEF preferred stock are in default for an amount equivalent to or exceeding four quarterly dividend payments, the holders of the preferred stock are entitled to elect a majority of PEC or PEF's respective board of directors until all accrued and unpaid dividends are paid. All classes of preferred stock are entitled to cumulative dividends with preference to the common stock dividends, are redeemable by vote of the Utilities' respective board of directors at any time, and do not have any preemptive rights. All classes of preferred stock have a liquidation preference equal to \$100 per share plus any accumulated unpaid dividends except for PEF's 4.75%, \$100 par value class, which does not have a liquidation preference. Each holder of PEC's preferred stock is entitled to one vote. The holders of PEF's preferred stock have no right to vote except for certain circumstances involving dividends payable on preferred stock that are in default or certain matters affecting the rights and preferences of the preferred stock.

6. DEBT AND CREDIT FACILITIES

Material changes, if any, to Progress Energy's, PEC's and PEF's debt and credit facilities and financing activities since December 31, 2009, are as follows.

On January 15, 2010, the Parent paid at maturity \$100 million of its Series A Floating Rate Notes with a portion of the proceeds from the \$950 million of Senior Notes issued in November 2009.

On March 25, 2010, PEF issued \$250 million of 4.55% First Mortgage Bonds due 2020 and \$350 million of 5.65% First Mortgage Bonds due 2040. Proceeds were used to repay the outstanding balance of PEF's notes payable to

affiliated companies, to repay the maturity of PEF's \$300 million 4.50% First Mortgage Bonds due June 1, 2010, and for general corporate purposes.

7. FAIR VALUE DISCLOSURES

A. DEBT AND INVESTMENTS

PROGRESS ENERGY

DEBT

The carrying amount of our long-term debt, including current maturities, was \$12.641 billion and \$12.457 billion at June 30, 2010 and December 31, 2009, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was \$14.2 billion and \$13.4 billion at June 30, 2010 and December 31, 2009, respectively.

INVESTMENTS

Certain investments in debt and equity securities that have readily determinable market values are accounted for as available-for-sale securities at fair value. Our available-for-sale securities include investments in stocks, bonds and cash equivalents held in trust funds, pursuant to NRC requirements, to fund certain costs of decommissioning the Utilities' nuclear plants as discussed in Note 4C of the 2009 Form 10-K. NDT funds are presented on the Consolidated Balance Sheets at fair value. In addition to the NDT funds, we hold other debt investments classified as available-for-sale, which are included in miscellaneous other property and investments on the Consolidated Balance Sheets at fair value.

The following table summarizes our available-for-sale securities at June 30, 2010 and December 31, 2009:

(in millions)	Fair Value	Unrealized Losses	Unrealized Gains
June 30, 2010			
Common stock equity securities	\$ 785	\$ 30	\$ 242
Preferred stock and other equity securities	17	-	6
Corporate debt securities	95	-	6
U.S. state and municipal debt securities	124	2	4
U.S. and foreign government debt securities	256	1	13
Money market funds and other securities	99	-	1
Total	\$ 1,376	\$ 33	\$ 272
December 31, 2009			
Common stock equity securities	\$ 839	\$ 22	\$ 301
Preferred stock and other equity securities	16	-	5
Corporate debt securities	71	1	5
U.S. state and municipal debt securities	118	2	3
U.S. and foreign government debt securities	197	1	8
Money market funds and other securities	161	-	-
Total	\$ 1,402	\$ 26	\$ 322

The NDT funds and other available-for-sale debt investments held in certain benefit trusts are managed by third-party investment managers who have a right to sell securities without our authorization. Net unrealized gains and losses of the NDT funds that would be recorded in earnings or other comprehensive income by a nonregulated entity are recorded as regulatory assets and liabilities pursuant to ratemaking treatment. Therefore, the preceding tables include the unrealized gains and losses for the NDT funds based on the original cost of the trust investments. All of

the unrealized losses and unrealized gains for 2010 and 2009 relate to the NDT funds. There were no material unrealized losses and unrealized gains for the other available-for-sale debt securities held in benefit trusts at June 30, 2010 and December 31, 2009.

The aggregate fair value of investments that related to the June 30, 2010 and December 31, 2009 unrealized losses was \$192 million and \$209 million, respectively.

At June 30, 2010, the fair value of our available-for-sale debt securities by contractual maturity was:

(in millions)	
Due in one year or less	\$ 21
Due after one through five years	232
Due after five through 10 years	141
Due after 10 years	96
Total	\$ 490

The following table presents selected information about our sales of available-for-sale securities. Realized gains and losses were determined on a specific identification basis.

(in millions)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Proceeds	\$ 1,755	\$ 222	\$ 3,692	\$ 903
Realized gains	6	3	10	15
Realized losses	10	22	16	74

Proceeds were primarily related to NDT funds. Losses for investments in the benefit investment trusts were not material. Other securities are evaluated on an individual basis to determine if a decline in fair value below the carrying value is other-than-temporary. At June 30, 2010 and December 31, 2009, our other securities had no investments in a continuous loss position for greater than 12 months.

PEC

DEBT

The carrying amount of PEC's long-term debt, including current maturities, was \$3.694 billion and \$3.709 billion at June 30, 2010 and December 31, 2009, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was \$4.1 billion and \$4.0 billion at June 30, 2010 and December 31, 2009, respectively.

INVESTMENTS

Certain investments in debt and equity securities that have readily determinable market values are accounted for as available-for-sale securities at fair value. PEC's available-for-sale securities include investments in stocks, bonds and cash equivalents held in trust funds, pursuant to NRC requirements, to fund certain costs of decommissioning PEC's nuclear plants as discussed in Note 4C of the 2009 Form 10-K. NDT funds are presented on the Consolidated Balance Sheets at fair value.

The following table summarizes PEC's available-for-sale securities at June 30, 2010 and December 31, 2009:

(in millions)	Fair Value		Unrealized Losses		Unrealized Gains	
June 30, 2010						
Common stock equity securities	\$	504	\$	22	\$	149
Preferred stock and other equity securities		11		-		4
Corporate debt securities		70		-		5
U.S. state and municipal debt securities		42		-		1
U.S. and foreign government debt securities		212		1		12
Money market funds and other securities		22		-		1
Total	\$	861	\$	23	\$	172
December 31, 2009						
Common stock equity securities	\$	545	\$	19	\$	186
Preferred stock and other equity securities		10		-		3
Corporate debt securities		67		1		4
U.S. state and municipal debt securities		37		-		1
U.S. and foreign government debt securities		177		1		8
Money market funds and other securities		35		-		-
Total	\$	871	\$	21	\$	202

The NDT funds are managed by third-party investment managers who have a right to sell securities without our authorization. Net unrealized gains and losses of the NDT funds that would be recorded in earnings or other comprehensive income by a nonregulated entity are recorded as regulatory assets and liabilities pursuant to ratemaking treatment. Therefore, the preceding tables include the unrealized gains and losses for the NDT funds based on the original cost of the trust investments. All of the unrealized losses and gains for 2010 and 2009 relate to the NDT funds.

The aggregate fair value of investments that related to the June 30, 2010 and December 31, 2009 unrealized losses was \$110 million and \$121 million, respectively.

At June 30, 2010, the fair value of PEC's available-for-sale debt securities by contractual maturity was:

(in millions)	
Due in one year or less	\$ 17
Due after one through five years	182
Due after five through 10 years	85
Due after 10 years	47
Total	\$ 331

The following table presents selected information about PEC's sales of available-for-sale securities. Realized gains and losses were determined on a specific identification basis.

(in millions)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Proceeds	\$ 115	\$ 83	\$ 222	\$ 477
Realized gains	3	1	6	5
Realized losses	7	9	12	30

PEC's proceeds were primarily related to NDT funds. Other securities are evaluated on an individual basis to determine if a decline in fair value below the carrying value is other-than-temporary. At June 30, 2010 and December 31, 2009, PEC did not have any other securities.

PEF

DEBT

The carrying amount of PEF's long-term debt, including current maturities, was \$4.481 billion and \$4.183 billion at June 30, 2010 and December 31, 2009, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was \$5.1 billion and \$4.5 billion at June 30, 2010 and December 31, 2009, respectively.

INVESTMENTS

Certain investments in debt and equity securities that have readily determinable market values are accounted for as available-for-sale securities at fair value. PEF's available-for-sale securities include investments in stocks, bonds and cash equivalents held in trust funds, pursuant to NRC requirements, to fund certain costs of decommissioning PEF's nuclear plant as discussed in Note 4C of the 2009 Form 10-K. The NDT funds are presented on the Balance Sheets at fair value.

The following table summarizes PEF's available-for-sale securities at June 30, 2010 and December 31, 2009:

(in millions)	Fair Value	Unrealized Losses	Unrealized Gains
June 30, 2010			
Common stock equity securities	\$ 281	\$ 8	\$ 93
Preferred stock and other equity securities	6	-	2
Corporate debt securities	13	-	1
U.S. state and municipal debt securities	81	2	3
U.S. and foreign government debt securities	31	-	1
Money market funds and other securities	67	-	-
Total	\$ 479	\$ 10	\$ 100
December 31, 2009			
Common stock equity securities	\$ 294	\$ 3	\$ 115
Preferred stock and other equity securities	6	-	2
Corporate debt securities	4	-	1
U.S. state and municipal debt securities	80	2	2
U.S. and foreign government debt securities	13	-	-
Money market funds and other securities	99	-	-
Total	\$ 496	\$ 5	\$ 120

The NDT funds are managed by third-party investment managers who have a right to sell securities without our authorization. Net unrealized gains and losses of the NDT funds that would be recorded in earnings or other comprehensive income by a nonregulated entity are recorded as regulatory assets and liabilities pursuant to ratemaking treatment. Therefore, the preceding tables include unrealized gains and losses for the NDT funds based on the original cost of the trust investments. All of the unrealized losses and gains for 2010 and 2009 relate to the NDT funds.

The aggregate fair value of investments that related to the June 30, 2010 and December 31, 2009 unrealized losses was \$78 million and \$56 million, respectively.

At June 30, 2010, the fair value of PEF's available-for-sale debt securities by contractual maturity was:

(in millions)	
Due in one year or less	\$ 4
Due after one through five years	46
Due after five through 10 years	46
Due after 10 years	30
Total	\$ 126

The following table presents selected information about PEF's sales of available-for-sale securities. Realized gains and losses were determined on a specific identification basis.

(in millions)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Proceeds	\$ 1,624	\$ 120	\$ 3,414	\$ 370
Realized gains	3	2	4	9
Realized losses	3	13	4	44

PEF's proceeds were related to NDT funds. Other securities are evaluated on an individual basis to determine if a decline in fair value below the carrying value is other-than-temporary. At June 30, 2010 and December 31, 2009, PEF did not have any other securities.

B. FAIR VALUE MEASUREMENTS

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). Fair value measurements require the use of market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, corroborated by market data, or generally unobservable. Valuation techniques are required to maximize the use of observable inputs and minimize the use of unobservable inputs. A midmarket pricing convention (the midpoint price between bid and ask prices) is permitted for use as a practical expedient.

GAAP also establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, and requires fair value measurements to be categorized based on the observability of those inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy are as follows:

Level 1 – The pricing inputs are unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives and listed equities.

Level 2 – The pricing inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 includes financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-

traded derivatives, such as over-the-counter forwards, swaps and options; certain marketable debt securities; and financial instruments traded in less than active markets.

Level 3 – The pricing inputs include significant inputs generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments may include longer-term instruments that extend into periods where quoted prices or other observable inputs are not available.

The following tables set forth, by level within the fair value hierarchy, our and the Utilities' financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2010. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

PROGRESS ENERGY

(in millions)	Level 1	Level 2	Level 3	Total
Assets				
Nuclear decommissioning trust funds				
Common stock equity	\$ 785	\$ -	\$ -	\$ 785
Preferred stock and other equity	17	-	-	17
Corporate debt	-	83	-	83
U.S. state and municipal debt	-	124	-	124
U.S. and foreign government debt	101	142	-	243
Money market funds and other	2	87	-	89
Total nuclear decommissioning trust funds	905	436	-	1,341
Derivatives				
Commodity forward contracts	-	14	-	14
Interest rate contracts	-	1	-	1
Other marketable securities				
Corporate debt	-	12	-	12
U.S. state and municipal debt	-	1	-	1
U.S. and foreign government debt	1	12	-	13
Money market funds and other	22	10	-	32
Total assets	\$ 928	\$ 486	\$ -	\$ 1,414

Liabilities

Derivatives				
Commodity forward contracts	\$ -	\$ 444	\$ 62	\$ 506
Interest rate contracts	-	63	-	63
Contingent value obligations derivatives	-	15	-	15
Total liabilities	\$ -	\$ 522	\$ 62	\$ 584

PEC

(in millions)	Level 1		Level 2		Level 3		Total
Assets							
Nuclear decommissioning trust funds							
Common stock equity	\$	504	\$	-	\$	-	\$ 504
Preferred stock and other equity		11		-		-	11
Corporate debt		-		70		-	70
U.S. state and municipal debt		-		43		-	43
U.S. and foreign government debt		82		130		-	212
Money market funds and other		1		18		-	19
Total nuclear decommissioning trust funds		598		261		-	859
Derivatives							
Interest rate contracts		-		1		-	1
Other marketable securities		5		-		-	5
Total assets	\$	603	\$	262	\$	-	\$ 865
Liabilities							
Derivatives							
Commodity forward contracts	\$	-	\$	74	\$	42	\$ 116
Interest rate contracts		-		20		-	20
Total liabilities	\$	-	\$	94	\$	42	\$ 136

PEF

(in millions)	Level 1		Level 2		Level 3		Total
Assets							
Nuclear decommissioning trust funds							
Common stock equity	\$	281	\$	-	\$	-	\$ 281
Preferred stock and other equity		6		-		-	6
Corporate debt		-		13		-	13
U.S. state and municipal debt		-		81		-	81
U.S. and foreign government debt		19		12		-	31
Money market funds and other		1		69		-	70
Total nuclear decommissioning trust funds		307		175		-	482
Derivatives							
Commodity forward contracts		-		14		-	14
Other marketable securities		3		-		-	3
Total assets	\$	310	\$	189	\$	-	\$ 499
Liabilities							
Derivatives							
Commodity forward contracts	\$	-	\$	370	\$	20	\$ 390
Interest rate contracts		-		12		-	12
Total liabilities	\$	-	\$	382	\$	20	\$ 402

The determination of the fair values in the preceding tables incorporates various factors, including risks of nonperformance by us or our counterparties. Such risks consider not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits or letters of credit), but also the impact of our and the Utilities' credit risk on our liabilities.

Transfers in (out) of Levels 1, 2 or 3 represent existing assets or liabilities that were previously categorized as a higher level for which the inputs to the estimate became less observable or assets and liabilities that were previously classified as Level 2 or 3 for which the lowest significant input became more observable during the period. There

were no significant transfers in (out) of Levels 1, 2 and 3 during the period. Transfers into and out of each level are measured at the end of the period.

Commodity forward contract derivatives and interest rate contract derivatives reflect positions held by us and the Utilities. Most over-the-counter commodity forward contract derivatives and interest rate contract derivatives are valued using financial models which utilize observable inputs for similar instruments and are classified within Level 2. Other derivatives are valued utilizing inputs that are not observable for substantially the full term of the contract, or for which the impact of the unobservable period is significant to the fair value of the derivative. Such derivatives are classified within Level 3. See Note 9 for discussion of risk management activities and derivative transactions.

NDT funds reflect the assets of the Utilities' nuclear decommissioning trusts. The assets of the trusts are invested primarily in exchange-traded equity securities (classified within Level 1) and marketable debt securities, most of which are valued using Level 1 inputs for similar instruments and are classified within Level 2.

Other marketable securities primarily represent available-for-sale debt securities used to fund certain employee benefit costs.

We issued Contingent Value Obligations (CVOs) in connection with the acquisition of Florida Progress, as discussed in Note 15 of the 2009 Form 10-K. The CVOs are derivatives recorded at fair value based on quoted prices from a less-than-active market and are classified as Level 2.

A reconciliation of changes in the fair value of our and the Utilities' commodity derivative liabilities classified as Level 3 in the fair value hierarchy for the periods ended June 30 follows:

PROGRESS ENERGY

(in millions)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Derivatives, net at beginning of period	\$ 52	\$ 43	\$ 39	\$ 41
Total losses (gains), realized and unrealized deferred as regulatory assets and liabilities, net	10	(12)	23	(10)
Derivatives, net at end of period	\$ 62	\$ 31	\$ 62	\$ 31

PEC

(in millions)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Derivatives, net at beginning of period	\$ 36	\$ 23	\$ 27	\$ 22
Total losses (gains), realized and unrealized deferred as regulatory assets and liabilities, net	6	(4)	15	(3)
Derivatives, net at end of period	\$ 42	\$ 19	\$ 42	\$ 19

PEF

(in millions)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Derivatives, net at beginning of period	\$ 16	\$ 20	\$ 12	\$ 19
Total losses (gains), realized and unrealized deferred as regulatory assets and liabilities, net	4	(8)	8	(7)
Derivatives, net at end of period	\$ 20	\$ 12	\$ 20	\$ 12

Substantially all unrealized gains and losses on derivatives are deferred as regulatory liabilities or assets consistent with ratemaking treatment. There were no Level 3 purchases, sales, issuances or settlements during the period.

8. BENEFIT PLANS

We have noncontributory defined benefit retirement plans that provide pension benefits for substantially all full-time employees. We also have supplementary defined benefit pension plans that provide benefits to higher-level employees. In addition to pension benefits, we provide contributory other postretirement benefits (OPEB), including certain health care and life insurance benefits, for retired employees who meet specified criteria.

The components of the net periodic benefit cost for the respective Progress Registrants for the three months ended June 30 were:

PROGRESS ENERGY

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Service cost	\$ 12	\$ 10	\$ 2	\$ 2
Interest cost	35	34	8	9
Expected return on plan assets	(39)	(35)	(1)	(1)
Amortization of actuarial loss ^(a)	12	12	-	1
Other amortization, net ^(a)	2	2	1	1
Net periodic cost before deferral ^(b)	\$ 22	\$ 23	\$ 10	\$ 12

^(a) Adjusted to reflect PEF's rate treatment. See Note 16B in the 2009 Form 10-K.

^(b) PEF received permission from the FPSC to defer the retail portion of certain 2009 pension expense. The FPSC order did not change the total net periodic pension cost, but deferred a portion of the costs to be recovered in future periods. For the three months ended June 30, 2009, PEF deferred \$16 million of net periodic pension costs as a regulatory asset. See Notes 7C and 16A in the 2009 Form 10-K.

PEC

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Service cost	\$ 5	\$ 4	\$ 1	\$ 1
Interest cost	16	16	4	5
Expected return on plan assets	(19)	(17)	-	(1)
Amortization of actuarial loss	4	2	-	1
Other amortization, net	1	1	-	-
Net periodic cost	\$ 7	\$ 6	\$ 5	\$ 6

PEF

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Service cost	\$ 5	\$ 5	\$ -	\$ 1
Interest cost	15	14	3	3
Expected return on plan assets	(17)	(15)	-	-
Amortization of actuarial loss	7	9	-	-
Other amortization, net	-	-	1	1
Net periodic cost before deferral ^(a)	\$ 10	\$ 13	\$ 4	\$ 5

- ^(a) PEF received permission from the FPSC to defer the retail portion of certain 2009 pension expense. The FPSC order did not change the total net periodic pension cost, but deferred a portion of the costs to be recovered in future periods. For the three months ended June 30, 2009, PEF deferred \$16 million of net periodic pension costs as a regulatory asset. See Notes 7C and 16A in the 2009 Form 10-K.

The components of the net periodic benefit cost for the respective Progress Registrants for the six months ended June 30 were:

PROGRESS ENERGY

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Service cost	\$ 23	\$ 21	\$ 4	\$ 4
Interest cost	70	68	16	18
Expected return on plan assets	(78)	(69)	(2)	(3)
Amortization of actuarial loss ^(a)	25	24	1	2
Other amortization, net ^(a)	3	3	2	3
Net periodic cost before deferral ^(b)	\$ 43	\$ 47	\$ 21	\$ 24

- ^(a) Adjusted to reflect PEF's rate treatment. See Note 16B in the 2009 Form 10-K.
- ^(b) PEF received permission from the FPSC to defer the retail portion of certain 2009 pension expense. The FPSC order did not change the total net periodic pension cost, but deferred a portion of the costs to be recovered in future periods. For the six months ended June 30, 2009, PEF deferred \$16 million of net periodic pension costs as a regulatory asset. See Notes 7C and 16A in the 2009 Form 10-K.

PEC

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Service cost	\$ 9	\$ 8	\$ 2	\$ 3
Interest cost	32	31	8	9
Expected return on plan assets	(38)	(34)	(1)	(2)
Amortization of actuarial loss	8	4	-	1
Other amortization, net	3	3	1	1
Net periodic cost	\$ 14	\$ 12	\$ 10	\$ 12

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Service cost	\$ 10	\$ 9	\$ 1	\$ 1
Interest cost	29	28	6	7
Expected return on plan assets	(34)	(29)	(1)	(1)
Amortization of actuarial loss	15	18	-	1
Other amortization, net	-	-	2	2
Net periodic cost before deferral ^(a)	\$ 20	\$ 26	\$ 8	\$ 10

^(a) PEF received permission from the FPSC to defer the retail portion of certain 2009 pension expense. The FPSC order did not change the total net periodic pension cost, but deferred a portion of the costs to be recovered in future periods. For the six months ended June 30, 2009, PEF deferred \$16 million of net periodic pension costs as a regulatory asset. See Notes 7C and 16A in the 2009 Form 10-K.

In 2010, contributions directly to pension plan assets are expected to approximate \$129 million for us, including \$95 million for PEC and \$34 million for PEF. We contributed \$13 million during the six months ended June 30, 2010, including \$7 million for PEC and \$6 million for PEF.

The Patient Protection and Affordable Care Act (PPACA) and the related Health Care and Education Reconciliation Act, which made various amendments to the PPACA, were enacted in March 2010. The PPACA contains a provision that changes the tax treatment related to a federal subsidy available to sponsors of retiree health benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to the benefits under Medicare Part D. The subsidy is known as the Retiree Drug Subsidy (RDS). Employers are not currently taxed on the RDS payments they receive. However, as a result of the PPACA as amended, RDS payments will effectively become taxable in tax years beginning after December 31, 2012, by requiring the amount of the subsidy received to be offset against the employer's deduction for health care expenses. Under GAAP, changes in tax law are accounted for in the period of enactment. Accordingly, an additional tax expense of \$22 million for us, \$12 million for PEC and \$10 million for PEF has been recognized during the six months ended June 30, 2010.

We are still evaluating the additional impacts of the PPACA as amended; however, we do not expect the changes to have a significant impact on the benefit obligations we have recorded.

9. RISK MANAGEMENT ACTIVITIES AND DERIVATIVE TRANSACTIONS

We are exposed to various risks related to changes in market conditions. We have a risk management committee that 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. Under our risk policy, we 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. We minimize such risk by performing credit and financial reviews using a combination of financial analysis and publicly available credit ratings of such counterparties. Potential nonperformance by counterparties is not expected to have a material effect on our financial position or results of operations.

A. COMMODITY DERIVATIVES

GENERAL

Most of our physical commodity contracts are not derivatives or qualify as normal purchases or sales. Therefore, such contracts are not recorded at fair value.

ECONOMIC DERIVATIVES

Derivative products, primarily natural gas and oil contracts, may be entered into from time to time 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 Utilities have financial derivative instruments with settlement dates through 2015 related to their exposure to price fluctuations on fuel oil and natural gas purchases. The majority of our financial hedge agreements will settle in 2010 and 2011. Substantially all of these instruments receive regulatory accounting treatment. Related unrealized gains and losses are recorded in regulatory liabilities and regulatory assets, respectively, on the Balance Sheets until the contracts are settled. After settlement of the derivatives and the fuel is consumed, any realized gains or losses are passed through the fuel cost-recovery clause.

Certain hedge agreements may result in the receipt of, or posting of, derivative collateral with our counterparties, depending on the daily derivative position. Fluctuations in commodity prices that lead to our return of collateral received and/or our posting of collateral with our counterparties negatively impact our liquidity. We manage open positions with strict policies that limit our exposure to market risk and require daily reporting to management of potential financial exposures.

Certain counterparties have posted or held cash collateral in support of these instruments. Progress Energy had a cash collateral asset included in derivative collateral posted of \$194 million and \$146 million on the Progress Energy Consolidated Balance Sheets at June 30, 2010 and December 31, 2009, respectively. At June 30, 2010, Progress Energy had 244.0 million MMBtu notional of natural gas and 32.3 million gallons notional of oil related to outstanding commodity derivative swaps that were entered into to hedge forecasted oil and natural gas purchases.

PEC had a cash collateral asset included in prepayments and other current assets of \$20 million and \$7 million on the PEC Consolidated Balance Sheets at June 30, 2010 and December 31, 2009, respectively. At June 30, 2010, PEC had 50.4 million MMBtu notional of natural gas related to outstanding commodity derivative swaps that were entered into to hedge forecasted natural gas purchases.

PEF's cash collateral asset included in derivative collateral posted was \$174 million and \$139 million on the PEF Balance Sheets at June 30, 2010 and December 31, 2009, respectively. At June 30, 2010, PEF had 193.6 million MMBtu notional of natural gas and 32.3 million gallons notional of oil related to outstanding commodity derivative swaps that were entered into to hedge forecasted oil and natural gas purchases.

CASH FLOW HEDGES

The Utilities designate a portion of commodity derivative instruments as cash flow hedges. From time to time we hedge exposure to market risk associated with fluctuations in the price of power for our forecasted sales. Realized gains and losses are recorded net in operating revenues. We also hedge exposure to market risk associated with fluctuations in the price of fuel for fleet vehicles. At June 30, 2010, we had 1.2 million gallons notional of gasoline, of which there was 0.6 million gallons each at PEC and PEF, and 1.2 million gallons notional of diesel, of which there was 0.6 million gallons each at PEC and PEF related to outstanding commodity derivative swaps that were entered into to hedge forecasted gasoline and diesel purchases. Realized gains and losses are recorded net as part of fleet vehicle fuel costs. At June 30, 2010 and December 31, 2009, neither we nor the Utilities had material outstanding positions in such contracts. The ineffective portion of commodity cash flow hedges was not material to our or the Utilities' results of operations for the three and six months ended June 30, 2010 and 2009.

At June 30, 2010 and December 31, 2009, the amount recorded in our or the Utilities' accumulated other comprehensive income related to commodity cash flow hedges was not material.

B. INTEREST RATE DERIVATIVES – FAIR VALUE OR CASH FLOW HEDGES

We use cash flow hedging strategies to reduce exposure to changes in cash flow due to fluctuating interest rates. We use fair value hedging strategies to reduce exposure to changes in fair value due to interest rate changes. Our cash flow hedging strategies are primarily accomplished through the use of forward starting swaps and our fair value hedging strategies are primarily accomplished through the use of fixed-to-floating swaps. The notional amounts of interest rate derivatives are not exchanged and do not represent exposure to credit loss. In the event of default by the counterparty, the exposure in these transactions is the cost of replacing the agreements at current market rates.

CASH FLOW HEDGES

At June 30, 2010, all open interest rate hedges will reach their mandatory termination dates within three and a half years. At June 30, 2010, including amounts related to terminated hedges, we had \$81 million of after-tax losses, including \$41 million and \$7 million of after-tax losses at PEC and PEF, respectively, recorded in accumulated other comprehensive income related to forward starting swaps. It is expected that in the next twelve months losses of \$7 million, net of tax, primarily related to terminated hedges, will be reclassified to interest expense at Progress Energy, including \$4 million at PEC. The actual amounts that will be reclassified to earnings may vary from the expected amounts as a result of changes in interest rates and changes in the timing of debt issuances at the Parent and the Utilities and changes in market value of currently open forward starting swaps.

At December 31, 2009, including amounts related to terminated hedges, we had \$35 million of after-tax losses, including \$27 million of after-tax losses at PEC and \$3 million of after-tax gains at PEF, recorded in accumulated other comprehensive income related to forward starting swaps.

At December 31, 2009, Progress Energy had \$325 million notional of open forward starting swaps, including \$100 million at PEC and \$75 million at PEF. At June 30, 2010, Progress Energy had \$1.050 billion notional of open forward starting swaps, including \$350 million at PEC and \$200 million at PEF.

FAIR VALUE HEDGES

For interest rate fair value hedges, the change in the fair value of the hedging derivative is recorded in net interest charges and is offset by the change in the fair value of the hedged item. At June 30, 2010, and December 31, 2009, neither we nor the Utilities had any outstanding positions in such contracts.

C. CONTINGENT FEATURES

Certain of our derivative instruments contain provisions defining fair value thresholds requiring the posting of collateral for hedges in a liability position greater than such threshold amounts. The thresholds are tiered and based on the individual company's credit rating with Moody's Investors Service, Inc. (Moody's), Standard & Poor's Rating Services (S&P) and Fitch Ratings (Fitch). Higher credit ratings have a higher threshold requiring a lower amount of the outstanding liability position to be covered by posted collateral. Conversely, lower credit ratings require a higher amount of the outstanding liability position to be covered by posted collateral. If our credit ratings were to be downgraded, we may have to post additional collateral on certain hedges in liability positions.

In addition, certain of our derivative instruments contain provisions that require our debt to maintain an investment grade credit rating from Moody's, S&P and Fitch. If our debt were to fall below investment grade, we would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions.

The aggregate fair value of all derivative instruments at Progress Energy with credit risk-related contingent features that are in a net liability position at June 30, 2010 is \$492 million, for which Progress Energy has posted collateral of \$194 million in the normal course of business. If the credit risk-related contingent features underlying these agreements were triggered at June 30, 2010, Progress Energy would have been required to post an additional \$298 million of collateral with its counterparties.

The aggregate fair value of all derivative instruments at PEC with credit risk-related contingent features that are in a liability position at June 30, 2010 is \$116 million, for which PEC has posted collateral of \$20 million in the normal course of business. If the credit risk-related contingent features underlying these agreements were triggered at June 30, 2010, PEC would have been required to post an additional \$96 million of collateral with its counterparties.

The aggregate fair value of all derivative instruments at PEF with credit risk-related contingent features that are in a net liability position at June 30, 2010 is \$376 million, for which PEF has posted collateral of \$174 million in the normal course of business. If the credit risk-related contingent features underlying these agreements were triggered on June 30, 2010, PEF would have been required to post an additional \$202 million of collateral with its counterparties.

D. DERIVATIVE INSTRUMENT AND HEDGING ACTIVITY INFORMATION

PROGRESS ENERGY

The following table presents the fair value of derivative instruments at June 30, 2010 and December 31, 2009:

Instrument / Balance sheet location (in millions)	June 30, 2010		December 31, 2009	
	Asset	Liability	Asset	Liability
Derivatives designated as hedging instruments				
Interest rate derivatives				
Prepayments and other current assets	\$ -		\$ 5	
Other assets and deferred debits	1		14	
Derivative liabilities, current		\$ 32		\$ -
Derivative liabilities, long-term		31		-
Total derivatives designated as hedging instruments	1	63	19	-
Derivatives not designated as hedging instruments				
Commodity derivatives ^(a)				
Prepayments and other current assets	9		11	
Other assets and deferred debits	5		9	
Derivative liabilities, current		217		189
Derivative liabilities, long-term		289		236
CVOs ^(b)				
Other liabilities and deferred credits		15		15
Fair value of derivatives not designated as hedging instruments	14	521	20	440
Fair value loss transition adjustment ^(c)				
Derivative liabilities, current		1		1
Derivative liabilities, long-term		4		4
Total derivatives not designated as hedging instruments	14	526	20	445
Total derivatives	\$ 15	\$ 589	\$ 39	\$ 445

^(a) Substantially all of these contracts receive regulatory treatment.

^(b) As discussed in Note 15 of the 2009 Form 10-K, the Parent issued 98.6 million CVOs in connection with the acquisition of Florida Progress during 2000.

^(c) In 2003, PEC recorded a \$38 million pre-tax (\$23 million after-tax) fair value loss transition adjustment pursuant to the adoption of new accounting guidance for derivatives. The related liability is being amortized to earnings over the term of the related contracts.

The following tables present the effect of derivative instruments on other comprehensive income (OCI) (See Note 4C) and the Consolidated Statements of Income for the three months ended June 30, 2010 and 2009:

Derivatives Designated as Hedging Instruments for the Three Months Ended June 30,

Instrument (in millions)	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives ^(a)		Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income ^(a)		Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives ^(b)	
	2010	2009	2010	2009	2010	2009
Interest rate derivatives ^{(c) (d)}	\$ (44)	\$ 8	\$ (2)	\$ (2)	\$ -	\$ -

^(a) Effective portion.

^(b) Related to ineffective portion and amount excluded from effectiveness testing.

^(c) Amounts in accumulated OCI related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.

^(d) Amounts recorded in the Consolidated Statements of Income are classified in interest charges.

Derivatives Not Designated as Hedging Instruments for the Three Months Ended June 30,

Instrument (in millions)	Realized Gain or (Loss) ^(a)		Unrealized Gain or (Loss) ^(b)	
	2010	2009	2010	2009
Commodity derivatives ^(a)	\$ (91)	\$ (185)	\$ (2)	\$ 77

^(a) After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause.

^(b) Amounts are recorded in regulatory liabilities and assets, respectively, on the Consolidated Balance Sheets until derivatives are settled.

Instrument (in millions)	Amount of Gain or (Loss) Recognized in Income on Derivatives	
	2010	2009
Commodity derivatives ^(a)	\$ 1	\$ 1
Fair value loss transition adjustment ^(a)	-	1
CVOs ^(a)	-	1
Total	\$ 1	\$ 3

^(a) Amounts recorded in the Consolidated Statements of Income are classified in other, net.

The following tables present the effect of derivative instruments on OCI (See Note 4C) and the Consolidated Statements of Income for the six months ended June 30, 2010 and 2009:

Derivatives Designated as Hedging Instruments for the Six Months Ended June 30,

Instrument (in millions)	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives ^(a)		Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income ^(a)		Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives ^(b)	
	2010	2009	2010	2009	2010	2009
Commodity cash flow derivatives	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ -
Interest rate derivatives ^{(c) (d)}	(50)	13	(3)	(3)	-	(3)
Total	\$ (50)	\$ 14	\$ (3)	\$ (3)	\$ -	\$ (3)

^(a) Effective portion.

^(b) Related to ineffective portion and amount excluded from effectiveness testing.

^(c) Amounts in accumulated OCI related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.

^(d) Amounts recorded in the Consolidated Statements of Income are classified in interest charges.

Derivatives Not Designated as Hedging Instruments for the Six Months Ended June 30,

Instrument (in millions)	Realized Gain or (Loss) ^(a)		Unrealized Gain or (Loss) ^(b)	
	2010	2009	2010	2009
Commodity derivatives ^(a)	\$ (150)	\$ (312)	\$ (236)	\$ (264)

^(a) After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause.

^(b) Amounts are recorded in regulatory liabilities and assets, respectively, on the Consolidated Balance Sheets until derivatives are settled.

Instrument (in millions)	Amount of Gain or (Loss) Recognized in Income on Derivatives	
	2010	2009
Fair value loss transition adjustment ^(a)	\$ -	\$ 1
CVOs ^(a)	-	8
Total	\$ -	\$ 9

^(a) Amounts recorded in the Consolidated Statements of Income are classified in other, net.

PEC

The following table presents the fair value of derivative instruments at June 30, 2010 and December 31, 2009:

Instrument / Balance sheet location (in millions)	June 30, 2010		December 31, 2009	
	Asset	Liability	Asset	Liability
Derivatives designated as hedging instruments				
Interest rate derivatives				
Other assets and deferred debits	\$ 1		\$ 8	
Derivative liabilities, current		\$ 9		\$ -
Other liabilities and deferred credits		11		-
Total derivatives designated as hedging instruments	1	20	8	-
Derivatives not designated as hedging instruments				
Commodity derivatives ^(a)				
Derivative liabilities, current		38		28
Other liabilities and deferred credits		78		62
Fair value of derivatives not designated as hedging instruments	-	116	-	90
Fair value loss transition adjustment ^(b)				
Derivative liabilities, current		1		1
Other liabilities and deferred credits		4		4
Total derivatives not designated as hedging instruments	-	121	-	95
Total derivatives	\$ 1	\$ 141	\$ 8	\$ 95

^(a) Substantially all of these contracts receive regulatory treatment.

^(b) In 2003, PEC recorded a \$38 million pre-tax (\$23 million after-tax) fair value loss transition adjustment pursuant to the adoption of new accounting guidance for derivatives. The related liability is being amortized to earnings over the term of the related contracts.

The following tables present the effect of derivative instruments on OCI (See Note 4C) and the Consolidated Statements of Income for the three months ended June 30, 2010 and 2009:

Derivatives Designated as Hedging Instruments for the Three Months Ended June 30,						
Instrument (in millions)	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives ^(a)		Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income ^(a)		Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives ^(b)	
	2010	2009	2010	2009	2010	2009
Interest rate derivatives ^{(c) (d)}	\$ (15)	\$ 2	\$ (1)	\$ (2)	\$ -	\$ -

^(a) Effective portion.

^(b) Related to ineffective portion and amount excluded from effectiveness testing.

^(c) Amounts in accumulated OCI related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.

^(d) Amounts recorded in the Consolidated Statements of Income are classified in interest charges.

Derivatives Not Designated as Hedging Instruments for the Three Months Ended June 30,				
Instrument (in millions)	Realized Gain or (Loss) ^(a)		Unrealized Gain or (Loss) ^(b)	
	2010	2009	2010	2009
Commodity derivatives	\$ (12)	\$ (21)	\$ (2)	\$ 7

(a) After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause.

(b) Amounts are recorded in regulatory liabilities and assets, respectively, on the Consolidated Balance Sheets until derivatives are settled.

Instrument (in millions)	Amount of Gain or (Loss) Recognized in Income on Derivatives	
	2010	2009
Commodity derivatives ^(a)	\$ 1	\$ 1
Fair value loss transition adjustment ^(a)	-	1
Total	\$ 1	\$ 2

(a) Amounts recorded in the Consolidated Statements of Income are classified in other, net.

The following tables present the effect of derivative instruments on OCI (See Note 4C) and the Consolidated Statements of Income for the six months ended June 30, 2010 and 2009:

Derivatives Designated as Hedging Instruments for the Six Months Ended June 30,						
Instrument (in millions)	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives ^(a)		Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income ^(a)		Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives ^(b)	
	2010	2009	2010	2009	2010	2009
Interest rate derivatives ^{(c) (d)}	\$ (16)	\$ 2	\$ (2)	\$ (2)	\$ -	\$ (2)

(a) Effective portion.

(b) Related to ineffective portion and amount excluded from effectiveness testing.

(c) Amounts in accumulated OCI related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.

(d) Amounts recorded in the Consolidated Statements of Income are classified in interest charges.

Derivatives Not Designated as Hedging Instruments for the Six Months Ended June 30,				
Instrument (in millions)	Realized Gain or (Loss) ^(a)		Unrealized Gain or (Loss) ^(b)	
	2010	2009	2010	2009
Commodity derivatives	\$ (19)	\$ (39)	\$ (44)	\$ (40)

(a) After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause.

(b) Amounts are recorded in regulatory liabilities and assets, respectively, on the Consolidated Balance Sheets until derivatives are settled.

Instrument (in millions)	Amount of Gain or (Loss) Recognized in Income on Derivatives	
	2010	2009
Fair value loss transition adjustment ^(a)	\$ -	\$ 1

^(a) Amounts recorded in the Consolidated Statements of Income are classified in other, net.

PEF

The following table presents the fair value of derivative instruments at June 30, 2010 and December 31, 2009:

Instrument / Balance sheet location (in millions)	June 30, 2010		December 31, 2009	
	Asset	Liability	Asset	Liability
Derivatives designated as hedging instruments				
Interest rate derivatives				
Prepayments and other current assets	\$ -		\$ 5	
Derivative liabilities, long-term		\$ 12		\$ -
Total derivatives designated as hedging instruments	-	12	5	-
Derivatives not designated as hedging instruments				
Commodity derivatives ^(a)				
Prepayments and other current assets	9		11	
Other assets and deferred debits	5		9	
Derivative liabilities, current		179		161
Derivative liabilities, long-term		211		174
Total derivatives not designated as hedging instruments	14	390	20	335
Total derivatives	\$ 14	\$ 402	\$ 25	\$ 335

^(a) Substantially all of these contracts receive regulatory treatment.

The following tables present the effect of derivative instruments on OCI (See Note 4C) and the Statements of Income for the three months ended June 30, 2010 and 2009:

Derivatives Designated as Hedging Instruments for the Three Months Ended June 30,						
Instrument (in millions)	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives ^(a)		Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income ^(a)		Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives ^(b)	
	2010	2009	2010	2009	2010	2009
Interest rate derivatives ^{(c) (d)}	\$ (7)	\$ 3	\$ -	\$ -	\$ -	\$ -

^(a) Effective portion.

^(b) Related to ineffective portion and amount excluded from effectiveness testing.

^(c) Amounts in accumulated OCI related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.

^(d) Amounts recorded in the Statements of Income are classified in interest charges.

Derivatives Not Designated as Hedging Instruments for the Three Months Ended June 30,				
Instrument (in millions)	Realized Gain or (Loss) ^(a)		Unrealized Gain or (Loss) ^(b)	
	2010	2009	2010	2009
Commodity derivatives	\$ (79)	\$ (164)	\$ -	\$ 70

^(a) After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause.

^(b) Amounts are recorded in regulatory liabilities and assets, respectively, on the Balance Sheets until derivatives are settled.

The following tables present the effect of derivative instruments on OCI (See Note 4C) and the Statements of Income for the six months ended June 30, 2010 and 2009:

Derivatives Designated as Hedging Instruments for the Six Months Ended June 30,						
Instrument (in millions)	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives ^(a)		Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income ^(a)		Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives ^(b)	
	2010	2009	2010	2009	2010	2009
Interest rate derivatives ^{(c) (d)}	\$ (10)	\$ 3	\$ -	\$ -	\$ -	\$ -

^(a) Effective portion.

^(b) Related to ineffective portion and amount excluded from effectiveness testing.

^(c) Amounts in accumulated OCI related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.

^(d) Amounts recorded in the Consolidated Statements of Income are classified in interest charges.

Derivatives Not Designated as Hedging Instruments for the Six Months Ended June 30,				
Instrument (in millions)	Realized Gain or (Loss) ^(a)		Unrealized Gain or (Loss) ^(b)	
	2010	2009	2010	2009
Commodity derivatives	\$ (131)	\$ (273)	\$ (192)	\$ (224)

^(a) After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause.

^(b) Amounts are recorded in regulatory liabilities and assets, respectively, on the Balance Sheets until derivatives are settled.

10. FINANCIAL INFORMATION BY BUSINESS SEGMENT

Our reportable segments are PEC and PEF, both of which are primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina and South Carolina and in portions of Florida, respectively. These electric operations also distribute and sell electricity to other utilities, primarily on the east coast of the United States.

In addition to the reportable operating segments, the Corporate and Other segment includes the operations of the Parent and PESC and other miscellaneous nonregulated businesses that do not separately meet the quantitative thresholds for disclosure as separate reportable business segments.

Products and services are sold between the various reportable segments. All intersegment transactions are at cost.

(in millions)	PEC	PEF	Corporate and Other	Eliminations	Totals
At and for the three months ended June 30, 2010					
Revenues					
Unaffiliated	\$ 1,117	\$ 1,252	\$ 3	\$ -	\$ 2,372
Intersegment	-	-	53	(53)	-
Total revenues	1,117	1,252	56	(53)	2,372
Ongoing Earnings (loss)	112	119	(50)	-	181
Assets	13,966	13,693	20,690	(16,212)	32,137

For the three months ended June 30, 2009

Revenues					
Unaffiliated	\$ 1,076	\$ 1,234	\$ 2	\$ -	\$ 2,312
Intersegment	-	-	55	(55)	-
Total revenues	1,076	1,234	57	(55)	2,312
Ongoing Earnings (loss)	94	121	(34)	-	181

At and for the six months ended June 30, 2010

Revenues					
Unaffiliated	\$ 2,380	\$ 2,522	\$ 5	\$ -	\$ 4,907
Intersegment	-	-	114	(114)	-
Total revenues	2,380	2,522	119	(114)	4,907
Ongoing Earnings (loss)	260	232	(97)	-	395
Assets	13,966	13,693	20,690	(16,212)	32,137

For the six months ended June 30, 2009

Revenues					
Unaffiliated	\$ 2,254	\$ 2,496	\$ 4	\$ -	\$ 4,754
Intersegment	-	-	120	(120)	-
Total revenues	2,254	2,496	124	(120)	4,754
Ongoing Earnings (loss)	223	212	(72)	-	363

Management uses the non-GAAP financial measure “Ongoing Earnings” as a performance measure to evaluate the results of our segments and operations. Ongoing Earnings is computed as GAAP net income attributable to controlling interests after excluding discontinued operations and the effects of certain identified gains and charges, which are considered Ongoing Earnings adjustments. Some of the excluded gains and charges have occurred in more than one reporting period but are not considered representative of fundamental core earnings. Management has identified the following Ongoing Earnings adjustments: tax levelization, which increases or decreases the tax expense recorded in the reporting period to reflect the annual projected tax rate, because it has no impact on annual earnings; CVO mark-to-market adjustments because we are unable to predict changes in their fair value; and the

impact from changes in the tax treatment of the Medicare Part D subsidy because GAAP requires that the impact of the tax law change be accounted for in the period of enactment rather than the affected tax year. Additionally, management has determined that impairments, charges (and subsequent adjustments, if any) recognized for the retirement of generating units prior to the end of their estimated useful lives and operating results of discontinued operations are not representative of our ongoing operations and should be excluded in computing Ongoing Earnings.

Reconciliations of consolidated Ongoing Earnings to net income attributable to controlling interests follow:

(in millions)	For the three months ended June 30,	
	2010	2009
Ongoing Earnings	\$ 181	\$ 181
Tax levelization	-	(5)
CVO mark-to-market (Note 9D)	-	1
Impairment, net of tax benefit of \$1	(1)	(2)
Plant retirement adjustment, net of tax expense of \$-	1	-
Income from continuing operations before cumulative effect of change in accounting principle	181	175
Discontinued operations, net of tax	(1)	(1)
Net income attributable to controlling interests	\$ 180	\$ 174

(in millions)	For the six months ended June 30,	
	2010	2009
Ongoing Earnings	\$ 395	\$ 363
Tax levelization	(2)	(12)
CVO mark-to-market (Note 9D)	-	8
Impairment, net of tax benefit of \$1	(2)	(2)
Plant retirement adjustment, net of tax expense of \$1	1	-
Change in tax treatment of the Medicare Part D subsidy (Note 8)	(22)	-
Continuing income attributable to noncontrolling interests, net of tax	2	1
Income from continuing operations before cumulative effect of change in accounting principle	372	358
Discontinued operations, net of tax	-	(1)
Cumulative effect of change in accounting principle, net of tax	(2)	-
Net income attributable to noncontrolling interests, net of tax	-	(1)
Net income attributable to controlling interests	\$ 370	\$ 356

11. OTHER INCOME AND OTHER EXPENSE

Other income and expense includes interest income and other income and expense items as discussed below. Nonregulated energy and delivery services include power protection services and mass market programs such as surge protection, appliance services and area light sales, and delivery, transmission and substation work for other utilities. The components of other, net as shown on the accompanying Statements of Income were as follows:

PROGRESS ENERGY

(in millions)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Nonregulated energy and delivery services income, net	\$ 8	\$ 8	\$ 7	\$ 9
CVOs unrealized gain, net	-	1	-	8
Donations	(2)	(2)	(6)	(5)
Other, net	(1)	6	(1)	-
Other, net	\$ 5	\$ 13	\$ -	\$ 12

PEC

(in millions)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Nonregulated energy and delivery services income, net	\$ 6	\$ 6	\$ 2	\$ 4
Donations	(1)	(2)	(3)	(3)
Other, net	(1)	-	(2)	(4)
Other, net	\$ 4	\$ 4	\$ (3)	\$ (3)

PEF

(in millions)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Nonregulated energy and delivery services income, net	\$ 2	\$ 3	\$ 5	\$ 6
Donations	(1)	(1)	(2)	(3)
Other, net	-	5	-	4
Other, net	\$ 1	\$ 7	\$ 3	\$ 7

12. ENVIRONMENTAL MATTERS

We are subject to regulation by various federal, state and local authorities in the areas of air quality, water quality, control of toxic substances and hazardous and solid wastes, and other environmental matters. We believe that we are in substantial compliance with those environmental regulations currently applicable to our business and operations and believe we have all necessary permits to conduct such operations. Environmental laws and regulations frequently change and the ultimate costs of compliance cannot always be precisely estimated.

A. HAZARDOUS AND SOLID WASTE

The provisions of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), authorize the United States Environmental Protection Agency (EPA) to require the cleanup of hazardous waste sites. This statute imposes retroactive joint and several liabilities. Some states, including North Carolina, South Carolina and Florida, have similar types of statutes. We are periodically notified by regulators, including the EPA and various state agencies, of our involvement or potential involvement in sites that may require investigation and/or remediation. There are presently several sites with respect to which we have been notified of

our potential liability by the EPA, the state of North Carolina, the state of Florida, or potentially responsible party (PRP) groups as described below in greater detail. Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under federal and state laws. PEC and PEF are each PRPs at several manufactured gas plant (MGP) sites. We are also currently in the process of assessing potential costs and exposures at other sites. These costs are eligible for regulatory recovery through either base rates or cost-recovery clauses. Both PEC and PEF evaluate potential claims against other PRPs and insurance carriers and plan to submit claims for cost recovery where appropriate. The outcome of potential and pending claims cannot be predicted. A discussion of sites by legal entity follows.

We measure our liability for environmental sites based on available evidence, including our experience in investigating and remediating environmentally impaired sites. The process often involves assessing and developing cost-sharing arrangements with other PRPs. For all sites, as assessments are developed and analyzed, we will accrue costs for the sites to the extent our liability is probable and the costs can be reasonably estimated. Because the extent of environmental impact, allocation among PRPs for all sites, remediation alternatives (which could involve either minimal or significant efforts), and concurrence of the regulatory authorities have not yet reached the stage where a reasonable estimate of the remediation costs can be made, we cannot determine the total costs that may be incurred in connection with the remediation of all sites at this time. It is probable that current estimates will change and additional losses, which could be material, may be incurred in the future.

The following tables contain information about accruals for probable and estimable costs related to various environmental sites, which were included in other current liabilities and other liabilities and deferred credits on the Balance Sheets:

PROGRESS ENERGY

(in millions)	MGP and Other Sites		Remediation of Distribution and Substation Transformers		Total
Balance, December 31, 2009	\$	22	\$	20	\$ 42
Amount accrued for environmental loss contingencies^(a)		4		10	14
Expenditures for environmental loss contingencies^(b)		(7)		(9)	(16)
Balance, June 30, 2010^(c)	\$	19	\$	21	\$ 40
Balance, December 31, 2008	\$	31	\$	22	\$ 53
Amount accrued for environmental loss contingencies ^(a)		4		2	6
Expenditures for environmental loss contingencies ^(b)		(6)		(7)	(13)
Balance, June 30, 2009 ^(c)	\$	29	\$	17	\$ 46

^(a) Amounts accrued are for the six months ended June 30, 2010 and 2009. For the three months ended June 30, 2010, we accrued \$2 million for the remediation of MGP and other sites and \$8 million for the remediation of distribution and substation transformers. For the three months ended June 30, 2009, our accruals for the remediation of MGP and other sites and for the remediation of distribution and substation transformers were not material.

^(b) Expenditures are for the six months ended June 30, 2010 and 2009. For the three months ended June 30, 2010, we spent \$5 million for the remediation of MGP and other sites and \$5 million for the remediation of distribution and substation transformers. For the three months ended June 30, 2009 our expenditures for the remediation of MGP and other sites and for the remediation of distribution and substation transformers were not material.

^(c) Expected to be paid out over one to 15 years.

PEC

(in millions)		MGP and Other Sites
Balance, December 31, 2009	\$	13
Amount accrued for environmental loss contingencies^(a)		2
Expenditures for environmental loss contingencies^(b)		(3)
Balance, June 30, 2010^(c)	\$	12
Balance, December 31, 2008	\$	16
Amount accrued for environmental loss contingencies ^(a)		4
Expenditures for environmental loss contingencies ^(b)		(4)
Balance, June 30, 2009 ^(c)	\$	16

^(a) Amounts accrued are for the six months ended June 30, 2010 and 2009. For the three months ended June 30, 2010 and 2009, PEC's accruals for the remediation of MGP and other sites were not material.

^(b) Expenditures are for the six months ended June 30, 2010 and 2009. For the three months ended June 30, 2010 and 2009, PEC's expenditures for the remediation of MGP and other sites were not material.

^(c) Expected to be paid out over one to five years.

PEF

(in millions)		MGP and Other Sites		Remediation of Distribution and Substation Transformers		Total
Balance, December 31, 2009	\$	9	\$	20	\$	29
Amount accrued for environmental loss contingencies^(a)		2		10		12
Expenditures for environmental loss contingencies^(b)		(4)		(9)		(13)
Balance, June 30, 2010^(c)	\$	7	\$	21	\$	28
Balance, December 31, 2008	\$	15	\$	22	\$	37
Amount accrued for environmental loss contingencies ^(a)		-		2		2
Expenditures for environmental loss contingencies ^(b)		(2)		(7)		(9)
Balance, June 30, 2009 ^(c)	\$	13	\$	17	\$	30

^(a) Amounts accrued are for the six months ended June 30, 2010 and 2009. For the three months ended June 30, 2010, PEF accrued \$2 million for the remediation of MGP and other sites and \$8 million for the remediation of distribution and substation transformers. For the three months ended June 30, 2009, PEF's accruals for the remediation of MGP and other sites and for the remediation of distribution and substation transformers were not material.

^(b) Expenditures are for the six months ended June 30, 2010 and 2009. For the three months ended June 30, 2010, PEF spent \$4 million for the remediation of MGP and other sites and \$5 million for the remediation of distribution and substation transformers. For the three months ended June 30, 2009, PEF's expenditures for the remediation of MGP and other sites and for the remediation of distribution and substation transformers were not material.

^(c) Expected to be paid out over one to 15 years.

PROGRESS ENERGY

In addition to PEC's Ward Transformer site located in Raleigh, N.C. (Ward), PEF's distribution and substation transformers sites, and the Utilities' MGP sites discussed below, we incurred indemnity obligations related to certain pre-closing liabilities of divested subsidiaries, including certain environmental matters (See discussion under Guarantees in Note 13B).

PEC

PEC has recorded a minimum estimated total remediation cost for all of its remaining MGP sites based upon its historical experience with remediation of several of its MGP sites. The maximum amount of the range for all the sites cannot be determined at this time. Actual experience may differ from current estimates, and it is probable that estimates will continue to change in the future.

In 2004, the EPA advised PEC that it had been identified as a PRP at the Ward site. The EPA offered PEC and a number of other PRPs the opportunity to negotiate the removal action for the Ward site and reimbursement to the EPA for the EPA's past expenditures in addressing conditions at the Ward site. Subsequently, PEC and other PRPs signed a settlement agreement, which requires the participating PRPs to remediate the Ward site. At June 30, 2010 and December 31, 2009, PEC's recorded liability for the site was approximately \$5 million and \$4 million, respectively. In 2008 and 2009, PEC filed civil actions against PRPs seeking contribution for and recovery of costs incurred in remediating the Ward site, as well as a declaratory judgment that defendants are jointly and severally liable for response costs at the site. PEC has settled with a number of the PRPs and is in active settlement negotiations with others. On March 24, 2010, the federal district court in which this matter is pending denied motions to dismiss filed by a number of defendants, but granted several other motions filed by state agencies and successor entities. The court also set a trial date for May 7, 2012. On June 15, 2010, the court entered a case management order and discovery is proceeding. The outcome of these matters cannot be predicted.

On September 30, 2008, the EPA issued a Record of Decision for the operable unit for stream segments downstream from the Ward site (Ward OU1) and advised 61 parties, including PEC, of their identification as PRPs for Ward OU1 and for the operable unit for further investigation at the Ward facility and certain adjacent areas (Ward OU2). The EPA's estimate for the selected remedy for Ward OU1 is approximately \$6 million. The EPA offered PEC and the other PRPs the opportunity to negotiate implementation of a response action for Ward OU1 and a remedial investigation and feasibility study for Ward OU2, as well as reimbursement to the EPA of approximately \$1 million for the EPA's past expenditures in addressing conditions at the site. On January 19, 2009, PEC and several of the other participating PRPs at the Ward site submitted a letter containing a good faith response to the EPA's special notice letter. Another group of PRPs separately submitted a good faith response, which the EPA advised would be used to negotiate implementation of the required actions. The other PRPs' good faith response was subsequently withdrawn. Discussions among representatives of certain PRPs, including PEC, and the EPA are ongoing. Although a loss is considered probable, an agreement among the PRPs for these matters has not been reached; consequently, it is not possible at this time to reasonably estimate the total amount of PEC's obligation, if any, for Ward OU1 and Ward OU2.

PEF

The accruals for PEF's MGP and other sites relate to two former MGP sites and other sites associated with PEF that have required, or are anticipated to require, investigation and/or remediation. The maximum amount of the range for all the sites cannot be determined at this time. Actual experience may differ from current estimates, and it is probable that estimates will continue to change in the future.

PEF has received approval from the FPSC for recovery through the Environmental Cost Recovery Clause (ECRC) of the majority of costs associated with the remediation of distribution and substation transformers. Under agreements with the Florida Department of Environmental Protection (FDEP), PEF has reviewed all distribution transformer sites and all substation sites for mineral oil-impacted soil caused by equipment integrity issues. Should additional distribution transformer sites be identified outside of this population, the distribution O&M costs will not be recoverable through the ECRC. At June 30, 2010 and December 31, 2009, PEF has recorded a regulatory asset for the probable recovery of costs through the ECRC related to the sites included under the agreement with the FDEP.

B. AIR AND WATER QUALITY

At June 30, 2010 and December 31, 2009, we were subject to various current federal, state and local environmental compliance laws and regulations governing air and water quality, resulting in capital expenditures and increased O&M expenses. These compliance laws and regulations included the Clean Air Interstate Rule (CAIR), the Clean Air Visibility Rule (CAVR), the Clean Smokestacks Act and mercury regulation. PEC's and PEF's environmental compliance capital expenditures related to these regulations began in 2002 and 2005, respectively. PEC's environmental compliance projects under the first phase of Clean Smokestacks Act emission reductions have been placed in service. PEF's CAIR projects have been placed in service.

On July 11, 2008, the U.S. Court of Appeals for the District of Columbia (D.C. Court of Appeals) issued its decision on multiple challenges to the CAIR, which vacated the CAIR in its entirety. On December 23, 2008, in response to petitions for rehearing filed by a number of parties, the D.C. Court of Appeals remanded the CAIR without vacating the rule for the EPA to conduct further proceedings consistent with the D.C. Court of Appeals' prior opinion. On August 2, 2010, the EPA published the proposed Transport Rule, which is the regulatory program that will replace the CAIR when finalized. The proposed Transport Rule contains new emissions trading programs for nitrogen oxides (NOx) and sulfur dioxide (SO₂) emissions as well as more stringent overall emissions targets. The EPA plans to finalize the Transport Rule in the spring of 2011. Due to significant investments in NOx and SO₂ emissions controls and fleet modernization projects completed or underway, we believe both PEC and PEF are well positioned to comply with the Transport Rule. The outcome of the EPA's rulemaking cannot be predicted. Because the D.C. Court of Appeals' December 23, 2008 decision remanded the CAIR, the current implementation of the CAIR continues to fulfill best available retrofit technology (BART) for NOx and SO₂ for BART-affected units under the CAVR. Should this determination change as the Transport Rule is promulgated, CAVR compliance eventually may require consideration of NOx and SO₂ emissions in addition to particulate matter emissions for BART-eligible units.

On February 8, 2008, the D.C. Court of Appeals vacated the delisting determination and the Clean Air Mercury Rule (CAMR). The U.S. Supreme Court declined to hear an appeal of the D.C. Court of Appeals' decision in January 2009. As a result, the EPA subsequently announced that it will develop a maximum achievable control technology (MACT) standard consistent with the agency's original listing determination. In addition, North Carolina adopted a state specific requirement. The North Carolina mercury rule contains a requirement that all coal-fired units in the state install mercury controls by December 31, 2017, and requires compliance plan applications to be submitted in 2013. We are currently evaluating the impact of these decisions. The outcome of these matters cannot be predicted.

To date, expenditures at PEF for CAIR regulation primarily relate to environmental compliance projects at Crystal River Units No. 4 and No. 5 (CR4 and CR5). The CR4 project was placed in service in May 2010 and the CR5 project was placed in service on December 2, 2009. Under an agreement with the FDEP, PEF will retire Crystal River Units No. 1 and No. 2 (CR1 and CR2) as coal-fired units and operate emission control equipment at CR4 and CR5. CR1 and CR2 will be retired after the second proposed nuclear unit at Levy completes its first fuel cycle, which was originally anticipated to be around 2020. As discussed in Note 3B, PEF identified in its 2010 nuclear cost-recovery filing regulatory and economic conditions causing schedule shifts such that major construction activities are being postponed until after the NRC issues the Levy COL. As required, PEF has advised the FDEP of these developments that will delay the retirement of CR1 and CR2 beyond the originally anticipated completion date of the first fuel cycle for Levy Unit 2. We are currently evaluating the impacts of the Levy schedule on PEF's compliance with environmental regulations. We cannot predict the outcome of this matter.

The EPA is continuing to record allowance allocations under the CAIR NOx trading program, in some cases for years beyond the estimated two-year period for promulgation of a replacement rule. The EPA's continued recording of CAIR NOx allowance allocations does not guarantee that allowances will continue to be usable for compliance after a replacement rule is finalized or that they will continue to have value in the future. SO₂ emission allowances will be utilized to comply with existing Clean Air Act requirements. PEF's CAIR expenses, including NOx allowance inventory expense, are recoverable through the ECRC. Emission allowances are included on the Balance Sheets in inventory and in other assets and deferred debits and have not changed materially from what was reported in the 2009 Form 10-K.

The EPA and a number of states are considering additional regulatory measures that may affect management, treatment, marketing and disposal of coal combustion products, primarily ash, from each of the Utilities' coal-fired plants. Revised or new laws or regulations under consideration may impose changes in solid waste classifications or groundwater protection environmental controls. On June 21, 2010, the EPA proposed two options for new rules to regulate coal combustion products. The first option would create a comprehensive program of federally-enforceable requirements for coal combustion products management and disposal as hazardous waste. The other option would have the EPA set performance standards for coal combustion products management facilities and regulate disposal of coal combustion products as non-hazardous waste. The EPA did not identify a preferred option. Under both options, the EPA may leave in place a regulatory exemption for approved beneficial uses of coal combustion residuals that are recycled. The 90-day public comment period ends on September 20, 2010, and a final rule is expected in 2011. Compliance plans and estimated costs to meet the requirements of new regulations will be determined when any new regulations are finalized. We are also evaluating the effect on groundwater quality from past and current operations, which may result in operational changes and additional measures under existing regulations. These issues are also under evaluation by state agencies. Certain regulated chemicals have been measured in wells near our ash ponds at levels above groundwater quality standards. Additional monitoring and investigation will be conducted. Detailed plans and cost estimates will be determined if these evaluations reveal that corrective actions are necessary. We cannot predict the outcome of this matter.

13. COMMITMENTS AND CONTINGENCIES

Contingencies and significant changes to the commitments discussed in Note 22 in the 2009 Form 10-K are described below.

A. PURCHASE OBLIGATIONS

As part of our ordinary course of business, we and the Utilities enter into various long- and short-term contracts for fuel requirements at our generating plants. Significant changes from the commitment amounts reported in Note 22A in the 2009 Form 10-K can result from new contracts, changes in existing contracts along with the impact of fluctuations in current estimates of future market prices for those contracts that are market price indexed. In most cases, these contracts contain provisions for price adjustments, minimum purchase levels, and other financial commitments. Additional commitments for fuel and related transportation will be required to supply the Utilities' future needs. At June 30, 2010, our and the Utilities' contractual cash obligations and other commercial commitments have not changed materially from what was reported in the 2009 Form 10-K except as follows.

PEC

In April 2010, PEC entered into a conditional agreement for firm pipeline transportation capacity to support PEC's gas supply needs for the approximate period of June 2013 through May 2033. The total cost to PEC associated with this agreement is estimated to be approximately \$477 million. The agreement is subject to several conditions precedent, including various state regulatory approvals, the completion and commencement of operation of necessary related intrastate natural gas pipeline system expansions and other contractual provisions. Due to the conditions of this agreement, the estimated costs are not currently considered a fuel commitment of PEC.

PEF

PEF's construction obligations included in Note 22A to the 2009 Form 10-K, which were primarily comprised of contractual obligations related to the Levy Engineering, Procurement, and Construction (EPC) agreement, totaled \$1.455 billion, \$2.981 billion, \$2.818 billion and \$1.543 billion, respectively, for less than one year, one to three years, three to five years and more than five years from December 31, 2009. We executed an amendment to the EPC agreement in 2010 because of schedule shifts in the Levy project (See Note 3B), and will postpone major construction activities on the project until after the NRC issues the COL, which is expected to be in late 2012 if the licensing schedule remains on track. Therefore, we will defer substantially all expenditures under the EPC agreement until the COL is received. Because we have executed an amendment to the EPC agreement and anticipate negotiating additional amendments upon receipt of the COL, we cannot currently predict the timing of when those

obligations will be satisfied or the magnitude of any change. Additionally, in light of the schedule shifts, PEF may incur fees and charges related to the disposition of outstanding purchase orders on long lead time equipment for the Levy nuclear project, which could be material. In June 2010, PEF completed its long lead time equipment disposition analysis to minimize the impact associated with the schedule shift. As a result of the analysis, PEF will continue with selected components of the long lead time equipment. Work will be suspended on the remaining long lead time equipment items and PEF will be in suspension negotiations with the selected equipment vendors in the coming months. In its April 30, 2010 nuclear cost-recovery filing, PEF included for rate-making purposes a point estimate of potential Levy disposition fees and charges of \$50 million, subject to true-up. However, the amount of disposition fees and charges, if any, cannot be determined until suspension negotiations are completed. We cannot predict the outcome of this matter.

On June 30, 2010, PEF entered into a long-term service agreement for the Hines Energy Complex covering scheduled maintenance events through 2029. The total cost to PEF associated with this agreement is estimated to be approximately \$390 million over the term of the agreement.

B. GUARANTEES

As a part of normal business, we enter into various agreements providing future financial or performance assurances to third parties. Such agreements include guarantees, standby letters of credit and surety bonds. At June 30, 2010, we do not believe conditions are likely for significant performance under these guarantees. To the extent liabilities are incurred as a result of the activities covered by the guarantees, such liabilities are included in the accompanying Balance Sheets.

At June 30, 2010, we have issued guarantees and indemnifications of and for certain asset performance, legal, tax and environmental matters to third parties, including indemnifications made in connection with sales of businesses. At June 30, 2010, our estimated maximum exposure for guarantees and indemnifications for which a maximum exposure is determinable was \$308 million, including \$32 million at PEF. Related to the sales of businesses, the latest specified notice period extends until 2013 for the majority of legal, tax and environmental matters provided for in the indemnification provisions. Indemnifications for the performance of assets extend to 2016. For certain matters for which we receive timely notice, our indemnity obligations may extend beyond the notice period. Certain indemnifications have no limitations as to time or maximum potential future payments. At June 30, 2010 and December 31, 2009, we had recorded liabilities related to guarantees and indemnifications to third parties of approximately \$33 million and \$34 million, respectively. These amounts included \$7 million for PEF at June 30, 2010 and December 31, 2009. During the six months ended June 30, 2010, our and the Utilities' accruals and expenditures related to guarantees and indemnifications were not material. As current estimates change, it is possible that additional losses related to guarantees and indemnifications to third parties, which could be material, may be recorded in the future.

In addition, the Parent has issued \$300 million in guarantees for certain payments of two wholly owned indirect subsidiaries (See Note 14).

C. OTHER COMMITMENTS AND CONTINGENCIES

SPENT NUCLEAR FUEL MATTERS

Pursuant to the Nuclear Waste Policy Act of 1982, the Utilities entered into contracts 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.

The DOE failed to begin taking spent nuclear fuel by January 31, 1998. In January 2004, the Utilities filed a complaint in the United States Court of Federal Claims against the DOE, claiming that the DOE breached the Standard Contract for Disposal of Spent Nuclear Fuel by failing to accept spent nuclear fuel from our various facilities on or before January 31, 1998. Approximately 60 cases involving the government's actions in connection with spent nuclear fuel are currently pending in the Court of Federal Claims. The Utilities have asserted nearly \$91

million in damages incurred between January 31, 1998, and December 31, 2005, the time period set by the court for damages in this case. The Utilities may file subsequent damage claims as they incur additional costs.

In 2008, the Utilities received a ruling from the United States Court of Federal Claims awarding \$83 million in the claim against the DOE for failure to abide by a contract for federal disposition of spent nuclear fuel. A request for reconsideration filed by the United States Department of Justice resulted in an immaterial reduction of the award. On August 15, 2008, the Department of Justice appealed the United States Court of Federal Claims ruling to the D.C. Court of Appeals. On July 21, 2009, the D.C. Court of Appeals vacated and remanded the calculation of damages back to the Trial Court but affirmed the portion of damages awarded that were directed to overhead costs and other indirect expenses. The Department of Justice requested a rehearing en banc but the D.C. Court of Appeals denied the motion on November 3, 2009. In the event that the Utilities recover damages in this matter, such recovery is not expected to have a material impact on the Utilities' results of operations given the anticipated regulatory and accounting treatment. However, the Utilities cannot predict the outcome of this matter.

SYNTHETIC FUELS MATTERS

On October 21, 2009, a jury delivered a verdict in a lawsuit against Progress Energy and a number of our subsidiaries and affiliates arising out of an Asset Purchase Agreement dated as of October 19, 1999, and amended as of August 23, 2000, (the Asset Purchase Agreement) by and among U.S. Global, LLC (Global); Earthco; certain affiliates of Earthco; EFC Synfuel LLC (which was owned indirectly by Progress Energy, Inc.) and certain of its affiliates, including Solid Energy LLC; Solid Fuel LLC; Ceredo Synfuel LLC; Gulf Coast Synfuel LLC (renamed Sandy River Synfuel LLC) (collectively, the Progress Affiliates), as amended by an amendment to the Asset Purchase Agreement. In a case filed in the Circuit Court for Broward County, Fla., in March 2003 (the Florida Global Case), Global had requested an unspecified amount of compensatory damages, as well as declaratory relief. Global asserted (1) that pursuant to the Asset Purchase Agreement, it was entitled to an interest in two synthetic fuels facilities previously owned by the Progress Affiliates and an option to purchase additional interests in the two synthetic fuels facilities and (2) that it was entitled to damages because the Progress Affiliates prohibited it from procuring purchasers for the synthetic fuels facilities. As a result of the expiration of the Section 29 tax credit program on December 31, 2007, all of our synthetic fuels businesses were abandoned and we reclassified our synthetic fuels businesses as discontinued operations.

The jury awarded Global \$78 million. On October 23, 2009, Global filed a motion to assess prejudgment interest on the award. On November 20, 2009, the court granted the motion and assessed \$55 million in prejudgment interest and entered judgment in favor of Global in a total amount of \$133 million. During the year ended December 31, 2009, we recorded an after-tax charge of \$74 million to discontinued operations. In December 2009, we made a \$154 million payment, which represents payment of the total judgment and a required premium equivalent to two years of interest, to the Broward County Clerk of Court bond account. On December 16, 2009, we filed notice of appeal. We are continuing to pursue the appellate process, but cannot predict the outcome of this matter.

In a second suit filed in the Superior Court for Wake County, N.C., *Progress Synfuel Holdings, Inc. et al. v. U.S. Global, LLC* (the North Carolina Global Case), the Progress Affiliates seek declaratory relief consistent with our interpretation of the Asset Purchase Agreement. Global was served with the North Carolina Global Case on April 17, 2003.

On May 15, 2003, Global moved to dismiss the North Carolina Global Case for lack of personal jurisdiction over Global. In the alternative, Global requested that the court decline to exercise its discretion to hear the Progress Affiliates' declaratory judgment action. On August 7, 2003, the Wake County Superior Court denied Global's motion to dismiss, but stayed the North Carolina Global Case, pending the outcome of the Florida Global Case. The Progress Affiliates appealed the superior court's order staying the case. By order dated September 7, 2004, the North Carolina Court of Appeals dismissed the Progress Affiliates' appeal. Based upon the verdict in the Florida Global Case, we anticipate dismissal of the North Carolina Global Case.

NOTICE OF VIOLATION

On April 29, 2009, the EPA issued a notice of violation and opportunity to show cause with respect to a 16,000-gallon oil spill at one of PEC's substations in 2007. The notice of violation did not include specified sanctions sought. Subsequently, the EPA notified PEC that the agency is seeking monetary sanctions that are *de minimus* to our and PEC's results of operations or financial condition. PEC has entered into consent agreements with the EPA on two of the three issues. Discussions between PEC and the EPA to resolve the remaining issue are ongoing. We cannot predict the outcome of this matter.

FLORIDA NUCLEAR COST RECOVERY

On February 8, 2010, a lawsuit was filed against PEF in state circuit court in Sumter County, Fla., alleging that the Florida nuclear cost-recovery statute (Section 366.93, Florida Statutes) violates the Florida Constitution, and seeking a refund of all monies collected by PEF pursuant to that statute with interest. The complaint also requests that the court grant class action status to the plaintiffs. On April 6, 2010, PEF filed a motion to dismiss the complaint. The trial judge issued an order on May 3, 2010, dismissing the complaint. The plaintiffs filed an amended complaint on June 1, 2010. PEF believes the lawsuit is without merit and filed a motion to dismiss the amended complaint on July 12, 2010. We cannot predict the outcome of this matter.

OTHER LITIGATION MATTERS

We and our subsidiaries are involved in various litigation matters in the ordinary course of business, some of which involve substantial amounts. Where appropriate, we have made accruals and disclosures to provide for such matters. In the opinion of management, the final disposition of pending litigation would not have a material adverse effect on our consolidated results of operations or financial position.

14. CONDENSED CONSOLIDATING STATEMENTS

As discussed in Note 23 in the 2009 Form 10-K, we have guaranteed certain payments of two wholly owned indirect subsidiaries, FPC Capital I (the Trust) and Florida Progress Funding Corporation (Funding Corp.). Our guarantees are joint and several, full and unconditional and are in addition to the joint and several, full and unconditional guarantees issued to the Trust and Funding Corp. by Florida Progress. Our subsidiaries have provisions restricting the payment of dividends to the Parent in certain limited circumstances and as disclosed in Note 11B in the 2009 Form 10-K, there were no restrictions on PEC's or PEF's retained earnings.

The Trust is a VIE of which we are not the primary beneficiary. Separate financial statements and other disclosures concerning the Trust have not been presented because we believe that such information is not material to investors.

Presented below are the condensed consolidating Statements of Income, Balance Sheets and Cash Flows as required by Rule 3-10 of Regulation S-X. In these condensed consolidating statements, the Parent column includes the financial results of the parent holding company only. The Subsidiary Guarantor column includes the consolidated financial results of Florida Progress only, which is primarily comprised of its wholly owned subsidiary PEF. The Non-guarantor Subsidiaries column includes the consolidated financial results of all non-guarantor subsidiaries, which is primarily comprised of our wholly owned subsidiary PEC. The Other column includes elimination entries for all intercompany transactions and other consolidation adjustments. Financial statements for PEC and PEF are separately presented elsewhere in this Form 10-Q. All applicable corporate expenses have been allocated appropriately among the guarantor and non-guarantor subsidiaries. The financial information may not necessarily be indicative of results of operations or financial position had the Subsidiary Guarantor or other non-guarantor subsidiaries operated as independent entities.

Condensed Consolidating Statement of Income
Three months ended June 30, 2010

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
Operating revenues					
Operating revenues	\$ -	\$ 1,255	\$ 1,117	\$ -	\$ 2,372
Affiliate revenues	-	-	52	(52)	-
Total operating revenues	-	1,255	1,169	(52)	2,372
Operating expenses					
Fuel used in electric generation	-	368	375	-	743
Purchased power	-	239	76	-	315
Operation and maintenance	-	208	347	(50)	505
Depreciation, amortization and accretion	-	110	123	-	233
Taxes other than on income	-	83	51	(1)	133
Other	-	3	-	-	3
Total operating expenses	-	1,011	972	(51)	1,932
Operating income (loss)	-	244	197	(1)	440
Other income (expense)					
Interest income	2	-	2	(3)	1
Allowance for equity funds used during construction	-	10	15	-	25
Other, net	-	-	3	2	5
Total other income (expense), net	2	10	20	(1)	31
Interest charges					
Interest charges	72	75	54	(2)	199
Allowance for borrowed funds used during construction	-	(2)	(5)	-	(7)
Total interest charges, net	72	73	49	(2)	192
(Loss) income from continuing operations before income tax and equity in earnings of consolidated subsidiaries	(70)	181	168	-	279
Income tax (benefit) expense	(28)	67	57	2	98
Equity in earnings of consolidated subsidiaries	222	-	-	(222)	-
Income (loss) from continuing operations	180	114	111	(224)	181
Discontinued operations, net of tax	-	-	(1)	-	(1)
Net income (loss)	180	114	110	(224)	180
Net (income) loss attributable to noncontrolling interests, net of tax	-	(1)	1	-	-
Net income (loss) attributable to controlling interests	\$ 180	\$ 113	\$ 111	\$ (224)	\$ 180

Condensed Consolidating Statement of Income
Three months ended June 30, 2009

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
Operating revenues					
Operating revenues	\$ -	\$ 1,236	\$ 1,076	\$ -	\$ 2,312
Affiliate revenues	-	-	54	(54)	-
Total operating revenues	-	1,236	1,130	(54)	2,312
Operating expenses					
Fuel used in electric generation	-	443	383	-	826
Purchased power	-	200	57	-	257
Operation and maintenance	2	204	331	(53)	484
Depreciation, amortization and accretion	-	105	121	-	226
Taxes other than on income	-	80	51	(1)	130
Other	-	8	2	-	10
Total operating expenses	2	1,040	945	(54)	1,933
Operating (loss) income	(2)	196	185	-	379
Other income (expense)					
Interest income	3	1	1	(3)	2
Allowance for equity funds used during construction	-	29	7	-	36
Other, net	1	6	5	1	13
Total other income (expense), net	4	36	13	(2)	51
Interest charges					
Interest charges	58	71	54	(2)	181
Allowance for borrowed funds used during construction	-	(9)	(3)	-	(12)
Total interest charges, net	58	62	51	(2)	169
(Loss) income from continuing operations before income tax and equity in earnings of consolidated subsidiaries	(56)	170	147	-	261
Income tax (benefit) expense	(26)	55	53	4	86
Equity in earnings of consolidated subsidiaries	204	-	-	(204)	-
Income (loss) from continuing operations	174	115	94	(208)	175
Discontinued operations, net of tax	-	-	(1)	-	(1)
Net income (loss)	174	115	93	(208)	174
Net (income) loss attributable to noncontrolling interests, net of tax	-	-	1	(1)	-
Net income (loss) attributable to controlling interests	\$ 174	\$ 115	\$ 94	\$ (209)	\$ 174

Condensed Consolidating Statement of Income
Six months ended June 30, 2010

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
Operating revenues					
Operating revenues	\$ -	\$ 2,527	\$ 2,380	\$ -	\$ 4,907
Affiliate revenues	-	-	113	(113)	-
Total operating revenues	-	2,527	2,493	(113)	4,907
Operating expenses					
Fuel used in electric generation	-	781	858	-	1,639
Purchased power	-	452	126	-	578
Operation and maintenance	3	413	676	(107)	985
Depreciation, amortization and accretion	-	234	245	-	479
Taxes other than on income	-	176	115	(4)	287
Other	-	5	-	-	5
Total operating expenses	3	2,061	2,020	(111)	3,973
Operating (loss) income	(3)	466	473	(2)	934
Other income (expense)					
Interest income	4	-	3	(4)	3
Allowance for equity funds used during construction	-	18	28	-	46
Other, net	(1)	3	(4)	2	-
Total other income (expense), net	3	21	27	(2)	49
Interest charges					
Interest charges	143	145	106	(4)	390
Allowance for borrowed funds used during construction	-	(7)	(9)	-	(16)
Total interest charges, net	143	138	97	(4)	374
(Loss) income from continuing operations before income tax and equity in earnings of consolidated subsidiaries	(143)	349	403	-	609
Income tax (benefit) expense	(58)	136	154	5	237
Equity in earnings of consolidated subsidiaries	455	-	-	(455)	-
Income (loss) from continuing operations before cumulative effect of change in accounting principle	370	213	249	(460)	372
Discontinued operations, net of tax	-	1	(1)	-	-
Cumulative effect of change in accounting principle, net of tax	-	-	(2)	-	(2)
Net income (loss)	370	214	246	(460)	370
Net (income) loss attributable to noncontrolling interests, net of tax	-	(2)	3	(1)	-
Net income (loss) attributable to controlling interests	\$ 370	\$ 212	\$ 249	\$ (461)	\$ 370

Condensed Consolidating Statement of Income
Six months ended June 30, 2009

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
Operating revenues					
Operating revenues	\$ -	\$ 2,500	\$ 2,254	\$ -	\$ 4,754
Affiliate revenues	-	-	119	(119)	-
Total operating revenues	-	2,500	2,373	(119)	4,754
Operating expenses					
Fuel used in electric generation	-	955	825	-	1,780
Purchased power	-	360	114	-	474
Operation and maintenance	3	406	642	(114)	937
Depreciation, amortization and accretion	-	265	241	-	506
Taxes other than on income	-	168	109	(4)	273
Other	-	10	2	-	12
Total operating expenses	3	2,164	1,933	(118)	3,982
Operating (loss) income	(3)	336	440	(1)	772
Other income (expense)					
Interest income	6	2	4	(6)	6
Allowance for equity funds used during construction	-	59	16	-	75
Other, net	8	6	(2)	-	12
Total other income (expense), net	14	67	18	(6)	93
Interest charges					
Interest charges	110	143	113	(6)	360
Allowance for borrowed funds used during construction	-	(18)	(6)	-	(24)
Total interest charges, net	110	125	107	(6)	336
(Loss) income from continuing operations before income tax and equity in earnings of consolidated subsidiaries	(99)	278	351	(1)	529
Income tax (benefit) expense	(39)	76	129	5	171
Equity in earnings of consolidated subsidiaries	415	-	-	(415)	-
Income (loss) from continuing operations	355	202	222	(421)	358
Discontinued operations, net of tax	1	(1)	(1)	-	(1)
Net income (loss)	356	201	221	(421)	357
Net (income) loss attributable to noncontrolling interests, net of tax	-	(1)	1	(1)	(1)
Net income (loss) attributable to controlling interests	\$ 356	\$ 200	\$ 222	\$ (422)	\$ 356

Condensed Consolidating Balance Sheet
June 30, 2010

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
ASSETS					
Utility plant, net	\$ -	\$ 9,977	\$ 10,424	\$ 111	\$ 20,512
Current assets					
Cash and cash equivalents	366	116	208	-	690
Notes receivable from affiliated companies	133	51	9	(193)	-
Regulatory assets	-	223	101	-	324
Derivative collateral posted	-	174	20	-	194
Income taxes receivable	15	6	33	(33)	21
Prepayments and other current assets	19	1,248	1,334	(170)	2,431
Total current assets	533	1,818	1,705	(396)	3,660
Deferred debits and other assets					
Investment in consolidated subsidiaries	13,669	-	-	(13,669)	-
Regulatory assets	-	1,317	894	-	2,211
Goodwill	-	-	-	3,655	3,655
Nuclear decommissioning trust funds	-	482	859	-	1,341
Other assets and deferred debits	165	225	918	(550)	758
Total deferred debits and other assets	13,834	2,024	2,671	(10,564)	7,965
Total assets	\$ 14,367	\$ 13,819	\$ 14,800	\$ (10,849)	\$ 32,137
CAPITALIZATION AND LIABILITIES					
Equity					
Common stock equity	\$ 9,857	\$ 4,727	\$ 5,270	\$ (9,997)	\$ 9,857
Noncontrolling interests	-	2	-	-	2
Total equity	9,857	4,729	5,270	(9,997)	9,859
Preferred stock of subsidiaries	-	34	59	-	93
Long-term debt, affiliate	-	309	115	(152)	272
Long-term debt, net	3,494	4,481	3,688	1	11,664
Total capitalization	13,351	9,553	9,132	(10,148)	21,888
Current liabilities					
Current portion of long-term debt	700	-	6	(1)	705
Notes payable to affiliated companies	-	166	27	(193)	-
Derivative liabilities	23	179	48	-	250
Other current liabilities	259	1,147	943	(201)	2,148
Total current liabilities	982	1,492	1,024	(395)	3,103
Deferred credits and other liabilities					
Noncurrent income tax liabilities	-	371	1,327	(410)	1,288
Regulatory liabilities	-	1,060	1,307	112	2,479
Other liabilities and deferred credits	34	1,343	2,010	(8)	3,379
Total deferred credits and other liabilities	34	2,774	4,644	(306)	7,146
Total capitalization and liabilities	\$ 14,367	\$ 13,819	\$ 14,800	\$ (10,849)	\$ 32,137

Condensed Consolidating Balance Sheet
December 31, 2009

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
ASSETS					
Utility plant, net	\$ -	\$ 9,733	\$ 9,886	\$ 114	\$ 19,733
Current assets					
Cash and cash equivalents	606	72	47	-	725
Notes receivable from affiliated companies	30	46	303	(379)	-
Regulatory assets	-	54	88	-	142
Derivative collateral posted	-	139	7	-	146
Income taxes receivable	5	97	50	(7)	145
Prepayments and other current assets	14	1,158	1,377	(176)	2,373
Total current assets	655	1,566	1,872	(562)	3,531
Deferred debits and other assets					
Investment in consolidated subsidiaries	13,348	-	-	(13,348)	-
Regulatory assets	-	1,307	873	(1)	2,179
Goodwill	-	-	-	3,655	3,655
Nuclear decommissioning trust funds	-	496	871	-	1,367
Other assets and deferred debits	166	202	923	(520)	771
Total deferred debits and other assets	13,514	2,005	2,667	(10,214)	7,972
Total assets	\$ 14,169	\$ 13,304	\$ 14,425	\$ (10,662)	\$ 31,236
CAPITALIZATION AND LIABILITIES					
Equity					
Common stock equity	\$ 9,449	\$ 4,590	\$ 5,085	\$ (9,675)	\$ 9,449
Noncontrolling interests	-	3	3	-	6
Total equity	9,449	4,593	5,088	(9,675)	9,455
Preferred stock of subsidiaries	-	34	59	-	93
Long-term debt, affiliate	-	309	115	(152)	272
Long-term debt, net	4,193	3,883	3,703	-	11,779
Total capitalization	13,642	8,819	8,965	(9,827)	21,599
Current liabilities					
Current portion of long-term debt	100	300	6	-	406
Short-term debt	140	-	-	-	140
Notes payable to affiliated companies	-	376	3	(379)	-
Derivative liabilities	-	161	29	-	190
Other current liabilities	261	941	902	(182)	1,922
Total current liabilities	501	1,778	940	(561)	2,658
Deferred credits and other liabilities					
Noncurrent income tax liabilities	-	320	1,258	(382)	1,196
Regulatory liabilities	-	1,103	1,293	114	2,510
Other liabilities and deferred credits	26	1,284	1,969	(6)	3,273
Total deferred credits and other liabilities	26	2,707	4,520	(274)	6,979
Total capitalization and liabilities	\$ 14,169	\$ 13,304	\$ 14,425	\$ (10,662)	\$ 31,236

Condensed Consolidating Statement of Cash Flows
Six months ended June 30, 2010

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
Net cash provided (used) by operating activities	\$ 54	\$ 582	\$ 694	\$ (171)	\$ 1,159
Investing activities					
Gross property additions	-	(543)	(598)	25	(1,116)
Nuclear fuel additions	-	(13)	(106)	-	(119)
Purchases of available-for-sale securities and other investments	-	(3,507)	(308)	-	(3,815)
Proceeds from available-for-sale securities and other investments	-	3,509	283	-	3,792
Changes in advances to affiliated companies	(103)	(5)	294	(186)	-
Return of investment in consolidated subsidiaries	54	-	-	(54)	-
Contributions to consolidated subsidiaries	(56)	-	-	56	-
Other investing activities	-	14	-	-	14
Net cash used by investing activities	(105)	(545)	(435)	(159)	(1,244)
Financing activities					
Issuance of common stock, net	405	-	-	-	405
Dividends paid on common stock	(354)	-	-	-	(354)
Dividends paid to parent	-	(102)	(50)	152	-
Dividends paid to parent in excess of retained earnings	-	-	(54)	54	-
Net decrease in short-term debt	(140)	-	-	-	(140)
Proceeds from issuance of long-term debt, net	-	591	-	-	591
Retirement of long-term debt	(100)	(300)	-	-	(400)
Changes in advances from affiliated companies	-	(210)	24	186	-
Contributions from parent	-	33	37	(70)	-
Other financing activities	-	(6)	(54)	8	(52)
Net cash (used) provided by financing activities	(189)	6	(97)	330	50
Net (decrease) increase in cash and cash equivalents	(240)	43	162	-	(35)
Cash and cash equivalents at beginning of period	606	72	47	-	725
Cash and cash equivalents at end of period	\$ 366	\$ 115	\$ 209	\$ -	\$ 690

Condensed Consolidating Statement of Cash Flows
Six months ended June 30, 2009

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiaries	Other	Progress Energy, Inc.
Net cash provided (used) by operating activities	\$ 169	\$ 454	\$ 670	\$ (198)	\$ 1,095
Investing activities					
Gross property additions	-	(770)	(411)	9	(1,172)
Nuclear fuel additions	-	(18)	(42)	-	(60)
Proceeds from sales of assets to affiliated companies	-	-	7	(7)	-
Purchases of available-for-sale securities and other investments	-	(420)	(562)	-	(982)
Proceeds from available-for-sale securities and other investments	-	423	537	-	960
Changes in advances to affiliated companies	(329)	(56)	(43)	428	-
Return of investment in consolidated subsidiaries	12	-	-	(12)	-
Contributions to consolidated subsidiaries	(347)	-	-	347	-
Other investing activities	-	(1)	(1)	(1)	(3)
Net cash (used) provided by investing activities	(664)	(842)	(515)	764	(1,257)
Financing activities					
Issuance of common stock, net	545	-	-	-	545
Dividends paid on common stock	(347)	-	-	-	(347)
Dividends paid to parent	-	(1)	(200)	201	-
Dividends paid to parent in excess of retained earnings	-	-	(12)	12	-
Payments of short-term debt with original maturities greater than 90 days	(129)	-	-	-	(129)
Net decrease in short-term debt	(40)	(371)	(110)	-	(521)
Proceeds from issuance of long-term debt, net	742	-	595	-	1,337
Retirement of long-term debt	-	-	(400)	-	(400)
Changes in advances from affiliated companies	-	417	11	(428)	-
Contributions from parent	-	343	17	(360)	-
Other financing activities	1	(5)	(56)	9	(51)
Net cash provided (used) by financing activities	772	383	(155)	(566)	434
Net increase (decrease) in cash and cash equivalents	277	(5)	-	-	272
Cash and cash equivalents at beginning of period	88	73	19	-	180
Cash and cash equivalents at end of period	\$ 365	\$ 68	\$ 19	\$ -	\$ 452

EXHIBIT B(1)

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

	12 Months Ending December 31, 2011
OPERATING ACTIVITIES	\$ <u>978</u>
INVESTING ACTIVITIES:	
Construction Expenditures	<u>(710)</u>
Change in Temporary Cash Investments	<u>146</u>
Other Investing Activities	<u>(26)</u>
Total	<u>(590)</u>
FINANCING ACTIVITIES:	
Issuance of Long-Term Debt	<u>297</u>
Retirement of Long-Term Debt	<u>(300)</u>
Increase in Short-Term Debt	<u>143</u>
Dividends Paid to Parent	<u>(526)</u>
Preferred Dividends	<u>(2)</u>
Total	<u>(388)</u>
TOTAL INCREASE (DECREASE) IN CASH	\$ <u><u>0</u></u>

EXHIBIT B(2)

PROGRESS ENERGY FLORIDA, INC.
PRELIMINARY CONSTRUCTION EXPENDITURES FOR 2011
(In Millions)

<u>BUDGET CLASSIFICATION</u>	<u>PRELIMINARY BUDGET</u>
PRODUCTION PLANT	325
TRANSMISSION PLANT	213
DISTRIBUTION PLANT	170
GENERAL PLANT	<u>2</u>
TOTAL LESS AFUDC	\$ <u>710</u>

EXHIBIT C

PROGRESS ENERGY FLORIDA, INC.
CAPITAL STOCK AND LONG-TERM DEBT
As Of September 30, 2010

<u>Title of Class</u>	<u>Shares Authorized</u>	<u>Shares Outstanding</u>	<u>Amount Outstanding</u>
Common Stock without par value	60,000,000	100 ¹	N/A
Cumulative Preferred Stock (Par Value \$100):	4,000,000		
4.00% Series		39,980	\$ 3,998,000
4.40% Series		75,000	7,500,000
4.58% Series		99,990	9,999,000
4.60% Series		39,997	3,999,700
4.75% Series		80,000	<u>8,000,000</u>
Total Cumulative Preferred Stock Outstanding			\$ <u>33,496,700</u>
First Mortgage Bonds:			
6.65% Series, due 2011			\$ 300,000,000
4.80% Series, due 2013			425,000,000
5.10% Series, due 2015			300,000,000
5.80% Series, due 2017			250,000,000
5.65% Series, due 2018			500,000,000
4.55% Series, due 2020			250,000,000
5.90% Series, due 2033			225,000,000
6.35% Series, due 2037			500,000,000
6.40% Series, due 2038			1,000,000,000
5.65% Series, due 2040			350,000,000
Citrus County 2002, Series - A, Due 2027			108,550,000
Citrus County 2002, Series - B, Due 2022			100,115,000
Citrus County 2002, Series - C, Due 2018			<u>32,200,000</u>
Total First Mortgage Bonds Outstanding			<u>\$4,340,865,000</u>

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.

Senior Unsecured Notes:

Total Senior Unsecured Notes Outstanding	\$ <u>-</u>
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Medium-Term Notes:

6.75%, due 2028	<u>150,000,000</u>
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Total Medium-Term Notes Outstanding	\$ <u>150,000,000</u>
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Total Long-Term Debt Outstanding:	<u>\$4,490,865,000</u>
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