DUKE ENERGY.
FLORIDA

August 29, 2013

VIA OVERNIGHT DELIVERY

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

Re: Petition of Progress Energy Florida, Inc. For an Accounting Order to Record in a Regulatory Asset or Liability the Unrealized and Realized Gains And Losses Resulting from Financial Accounting Requirements Related to Interest Rate Derivative Agreements; *Docket No. 120303-EI*

Dear Ms. Cole:

Pursuant to Order No. PSC-13-0193-PAA-EI, Duke Energy Florida, Inc. ("DEF") submits its Risk Management Plan for its interest rate derivative agreements. Please note that the internal guidelines attached to this Plan are confidential and the Company has filed for confidentiality treatment of these documents.

Thank you for your assistance in this matter. If you should have any questions, please feel free to contact me at (850) 521-1428.

Sincerely,

Matthew R. Bernier

MRB/at
Enclosures
cc: Martha Brown

Duke Energy Florida

Risk Management Plan for

Interest Rate Derivatives

For 2013

Duke Energy Florida (DEF or the Company) is submitting its 2013 Risk Management Plan for Interest Rate Derivatives ("Risk Management Plan") for review by the Florida Public Service Commission (FPSC). This Risk Management Plan includes the required items as outlined in Order No. PSC-13-0193-PAA-EI.

Several groups play key roles in the management, execution, and monitoring of the activities outlined in DEF's Risk Management Plan. These groups consist of Corporate Treasury, which includes Corporate Finance and Cash Management, Global Risk Management (GRM), which includes Enterprise and Regulated Risk and Credit (Risk Management), the Corporate Controller's Group including Accounting Research, and Internal Audit. The activities supported by these groups include the following: managing DEF's mix of floating rate and fixed rate debt, executing DEF's interest rate hedging strategy, performing deal confirmations, performing deal valuations, conducting quarterly sensitivity analysis, performing settlements under the various derivative agreements, reviewing potential derivative transactions, conducting hedge effectiveness testing, monitoring and reporting counterparty credit exposure, preparing journal entries to account for interest rate derivative activities, and performing audits.

Based on the June 30, 2013 financial statements, DEF's outstanding debt and interest rate derivatives were as follow:

- Total long-term debt: $4.892 billion
- Total Outstanding interest rate derivatives: $0

Item 1. Identify the Company's overall quantitative and qualitative Interest Rate Risk Management Plan Objectives.

Interest rate risk is defined as the impact on Duke Energy earnings per share and asset returns from interest rate market movements. The goal of the interest rate risk management program at DEF is to maximize access to capital in a cost effective manner within the constraints of the financial markets. This may include, but is not limited to, managing the interest rate on current or future debt issuances as well as managing the mix of fixed and floating rate debt. Interest rate exposure is managed by limiting variable-rate exposures to a percentage of total debt and by monitoring the effects of market changes in interest rates.

According to the Financing Activity and Financial Risk Management Policy, DEF may enter into financial derivative instruments, including, but not limited to, interest rate swaps and U.S. Treasury lock agreements to manage and mitigate interest rate risk exposure. Additionally, in anticipation of certain fixed-rate debt issuances, forward starting interest rate swaps may be executed to lock in components of the market interest rates and then terminated prior to or upon the issuance of the corresponding debt.

Item 2. Identify and quantify each risk, general and specific, that the Company may encounter when seeking a fixed rate through interest rate hedging.

Corporate Treasury has identified specific risks associated with DEF's interest rate hedging activities. The specific risks include market liquidity risk, interest rate volatility, and credit risk. Described below are the specific risks that to which DEF is exposed and the activities that Corporate Treasury undertakes to manage overall exposure to these risks.

- Market liquidity - The ability to issue debt or enter into risk mitigating strategies is dependent on market conditions. There can be times in the financial markets when it is not possible to issue debt or to enter into strategies to manage risk. Such events typically are driven by global economic events. Corporate Treasury manages its market liquidity risk by actively monitoring market conditions with its internal and external counterparts, balancing the level of maturities over time, and preparing to issue debt in advance of maturities in order to manage access to market capital

- Interest rate volatility - While interest rates will move up and down during the life of a hedge, increasing or decreasing the fair value of the hedge, DEF is focused on executing the hedged fixed rate debt issuance according to plan, therefore ensuring the hedge is effective. In addition, DEF limits the amount of outstanding floating rate debt to ensure low interest volatility. Quarterly, Corporate Finance conducts a sensitivity analysis on the potential effect of an average 1% increase (+) or decrease (-) in market interest rates on DEF's pre-tax net income. As of June 30, 2013, the impact would be +/- $5.0M.

- Counterparty credit risk - During the life of a hedge, counterparty credit risk can be encountered. In order to protect DEF from adverse changes in external counterparty credit risk, the credit exposure of DEF's hedge counterparties is reviewed by Risk Management on a quarterly basis and reported out as part of the quarterly enterprise credit exposure reporting. Additionally, Risk Management provides Corporate Treasury with probabilities of default based on the hedging counterparty's external credit rating for use in deriving an appropriate credit adjustment to the initial credit valuation.

Item 3. Describe the Company's oversight of its interest rate hedging activities.

Several groups play key roles in the management, monitoring, and execution of the activities outlined in the Risk Management Plan. These groups consist of Corporate Treasury including Corporate Finance and Cash Management, Global Risk Management, Corporate Controller's Group including Accounting Research, and Internal Audit. The activities supported by these groups include risk designs and implementations, transaction monitoring and valuations, credit assessments, accounting research and entry bookings, and reporting.

Corporate Treasury is responsible for financing activity and related financial risk management throughout the corporation. Financial risk management includes, but is not limited to, interest rate risk management. Interest rate risk management activities must comply with the Financing Activity and Financial Risk Management Policy as well as the Delegation of Authority Policy (DOA) and Approval of Business Transactions Policy (ABT). Any exceptions to the policies must be approved by the Corporate Treasurer and the Corporate Chief Financial Officer.

The Financing Activity and Financial Risk Management Policy authorizes Corporate Treasury to use derivative financial instruments to manage the interest rate risk associated with outstanding debt or to hedge interest rate risk associated with new debt issuances. All interest rate activity with third parties is executed solely by or in coordination with Corporate Treasury's Corporate Finance group and requires approval according to the enterprise-wide Delegation of Authority tool as defined by the DOA Policy. Speculation in interest rate transactions is prohibited.

All potential derivative activity is reviewed by Accounting Research prior to execution by Corporate Finance; information is sent and received electronically and maintained in transaction files for audit purposes.

The Financing Activity and Financial Risk Management Policy requires that all interest rate derivative transactions be confirmed by the external counterpart with whom the transaction was executed.

Within 24 hours of trade execution all interest rate derivative transactions are verbally or electronically confirmed with the external counterparty as required by the Financing Activity and Financial Risk Management Policy. Any official bank confirmation, if applicable, is signed by an individual within Corporate Treasury authorized to trade under the Delegation of Authority tool, but who did not execute the referenced transaction. Transaction confirmations are maintained by Corporate Finance as part of the transaction file.

Monthly, Corporate Finance downloads or records market valuations or rates from Bloomberg, or other market sources if necessary, as of the final working day of the previous month. Existing positions are marked-to-market using Excel, Bloomberg, or via financial institution reports. Corporate Finance sends these derivative mark-to-market (MTM) valuations to Risk Management, Accounting, and senior Treasury Management on a monthly basis.

These derivative valuations are used by Risk Management to monitor and report on counterparty credit exposure as part of their quarterly enterprise credit exposure reporting discussed above in Item 2.

Accounting is responsible for preparing the monthly journal entries to account for interest rate derivative activities and performing any compliance activities as defined and/or required by various regulatory agencies (e.g. Securities and Exchange Commission (SEC), Financial Accounting Standards Board (FASB), Federal Energy Regulatory Commission (FERC), and the FPSC). If applicable, effectiveness testing is executed on a quarterly basis for positions requiring such testing by Corporate Accounting Research.

Annually, internal audits are conducted to ensure that interest rate risk management activities have complied with the Financing Activity and Financial Risk Management Policy, the DOA Policy, and ABT Policy and that any exceptions to these policies have been properly approved by the Corporate Treasurer and the Corporate Chief Financial Officer. Additionally, the Company's external auditors review derivative valuations on a quarterly basis in connection with their independent audit of the financial statements taken as a whole.

Item 4. Verify that the Company monitors its interest rate hedging activities with independent and unavoidable oversight.

In addition to the oversight outlined in Item 3, Sarbanes-Oxley (SOX) controls are in place ensuring all interest rate derivative hedges are reviewed, executed, and valued according to policy. SOX controls are independently tested by both internal and external audits for effectiveness. The SOX controls for interest rate derivative activity are as follows:

- The Financing Activity and Financial Risk Management Policy outlines parameters around interest rate risk management activity.

- Only individuals identified in the Delegation of Authority tool are authorized to enter into or confirm interest rate transactions.

- Corporate Treasury and Corporate Accounting Research review derivative transactions that may require hedge designation.

- Following Corporate Treasury transaction execution, Corporate Treasury records the details of the transaction on a standardized trade ticket.

- Within 24 hours of execution trades must be verbally or electronically confirmed. Any official bank confirmation, if applicable, must be signed by an individual authorized to trade who did not execute the referenced transaction.

- Corporate Treasury downloads or records market valuations or rates from Bloomberg, or other market sources if necessary, as of the final working day of the previous month. Existing positions are marked-to-market using Excel, Bloomberg, or via financial institution reports.

- Trade valuations are transmitted to the relevant corporate and business unit accountants.

- If applicable, effectiveness testing is executed on a quarterly basis for positions requiring such testing by Corporate Accounting Research.

These SOX controls are reviewed annually by Corporate Finance and reaffirmed with Corporate Accounting Services to ensure that the controls in place continue to fit the activities being monitored.

Item 5. Describe the Company's corporate risk policy regarding interest rate hedging activities.

Speculation in interest rate transactions is prohibited.

Financing and financial risk management activities must comply with the Financing Activity and Financial Risk Management Policy (as well as the Delegation of Authority tool). Exceptions to the policy must be approved by the Corporate Treasurer and the Corporate Chief Financial Officer (CFO).

Item 6. Verify that the Company's corporate risk policy clearly delineates individual and group transaction limits and authorizations for all interest rate hedging activities.

The Duke Energy Delegation of Authority Policy clearly delineates transaction limits and authorizations for all interest rate hedging activities. An internal Delegation of Authority tool allows easy access for all employees to effectively access authorization levels. The Delegation of Authority Policy and tool in conjunction with the Financing Activity and Financial Risk Management

Policy provide strong oversight, governance, and controls on all interest rate risk management activities.

Item 7. Describe the Company's strategy to fulfill its risk management objectives.

In order to successfully fulfill the objectives of managing current and future debt issuances as well as managing the mix of fixed and floating-rate debt, interest rate risk strategy and implementation is executed by experienced professionals who conduct and execute their activities to achieve the objectives of the plan. A key part of this role is using market knowledge when analyzing the available market tools and calculating and receiving competitive pricing.

The Risk Management Plan is governed by strong corporate policies and controls and subject to internal and external audits. Strong processes, policies, and controls combined with appropriate organizational design and strong deal approval requirements all support and optimize prudent interest rate risk management effectiveness.

Item 8. Verify that the Company has sufficient policies and procedures to implement its strategy.

DEF maintains sufficient policies and processes to implement its strategy.

The key governing policies and procedures under which interest rate risk management operates are as follow:

- Financing Activity and Risk Management Policy
- Delegation of Authority Policy and tool

- Sarbanes-Oxley Interest Rate Risk Management Narrative, including key controls

- Dodd-Frank Act Governance Policy; and

- Approval of Business Transactions Policy

Item 9. Describe the Company's reporting system for interest rate hedging.

DEF's reporting system is as follows:

- All swaps are marked-to-market via two sources: internal (Bloomberg) and external (counterparts).

- The mark-to-market valuations are input into an Excel file by an individual in Corporate Treasury on a monthly basis.

- Quarterly, Risk Management provides Corporate Treasury with probabilities of default based on the counterparty's external credit rating for use in deriving the credit adjusted valuation.

- The file is then validated by another authorized individual within Corporate Treasury.

- After the file is reviewed, it is sent to senior Treasury management, Accounting, and Risk Management.

- Accounting reviews the document and uses the information for its external reporting. Accounting records transactions as assets or liabilities in Accounts 182.3 and 254, respectively.

- External auditors review supporting documentation during their audit processes.

Item 10. If the Company has current limitations implementing certain hedging techniques that, if removed, would provide a net benefit to rate payers, provide a plan detailing the resources, policies, and procedure for acquiring the ability to effectively use the hedging techniques.

DEF does not believe there are any current limitations on its ability to execute its hedging strategy in a reasonable and prudent manner.

Item 11. Verify the Company's reporting system and other tools used to identify, measure, and monitor all forms of risk associated with interest rate hedging activities.

The Company uses independent internal sources and external sources to ensure interest rate hedging activities are captured, confirmed, valued, monitored, accounted for, and reported accurately. The Company uses standard valuation and reporting methods and systems to ensure independent and accurate documentation, valuations, and reporting. Specifically, all derivatives are valued using two sources, one internal and one external. The primary internal source is Bloomberg, which is an independent system that is the financial market standard. The primary external sources are from external banking counterparts. These sources are used prior to deal execution as well as subsequent to execution for monthly valuations. The use of independent internal and external sources ensures risks are viewed and quantified accurately.

In addition to Treasury sourced execution and valuation, Risk Management periodically monitors counterparty credit exposure per the Corporate Credit Policy.

Item 12. Verify that the Company has a sufficient number and type of personnel who can fulfill its risk management objectives.

The Company has a sufficient number and type of personnel to fulfill all functions related to interest rate hedging activity. This includes a process for both execution and review within Corporate Treasury, Risk Management, and Accounting.

- Within Treasury, the Treasurer, Assistant Treasurer, and Corporate Finance team are responsible for the management of interest rate risk and resulting activity.

- Within Risk Management, the Chief Risk Officer, Director of Enterprise Portfolio and Risk Management, and the Credit Risk Management team are responsible for evaluating credit risk.

- Within the Controller's organization, the Controller oversees all Accounting Research and Accounting activity related to interest rate activities.

Supporting Documentation:

- Financing Activity and Financial Risk Management Policy
- Delegation of Authority Policy
- Approval of Business Transactions Policy
- Corporate Credit Policy
- Sarbanes-Oxley Interest Rate Risk Management Narrative
- Dodd-Frank Act Governance Policy