BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of Florida Power Corporation's Earnings, Including Effects of Proposed Acquisition of Florida Power Corporation by Carolina Power & Light	DOCKET NO. 000824-EI Submitted for Filing: November 15, 2001

DIRECT TESTIMONY
OF
ROBERT H. BAZEMORE, JR.

ON BEHALF OF
FLORIDA POWER CORPORATION

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DIRECT TESTIMONY OF ROBERT H. BAZEMORE, JR.
ON BEHALF OF FLORIDA POWER CORPORATION

I. Introduction and Summary

Q. State your name, position, and business address.

A. My name is Robert H. Bazemore, Jr. I am the Vice President and Controller for Progress Energy, Inc. ("Progress Energy") and Florida Power Corporation ("Florida Power" or the "Company") and Vice President in charge of Accounting for Progress Energy Service Company, LLC ("Progress Energy Service" or the "Service Company"). My business address is Accounting Department, Progress Energy Service Company, LLC, P.O. Box 1551, OHS 5A1, Raleigh, NC 27602.

Q. What are your duties and responsibilities?

As Vice President and Controller of Progress Energy and Florida Power, I am responsible for all accounting and financial reporting functions (both internal and external) for Progress Energy and its subsidiaries, including Florida Power. I oversee accounting policies and procedures, accounting business controls, and accounting records. Apart from Florida Power, Progress Energy's subsidiaries include Carolina Power & Light Company ("CP&L") and Progress Energy's other regulated and non-regulated businesses.

Q. Please describe your educational background and work experience.

A. I earned my Bachelor's Degree in Accounting in 1976 at the University of South Florida. From 1976-1978, I worked as a Staff Accountant for Smoak, Davis, &

Nixon in Jacksonville, Florida. From 1978-1980, I worked as a Senior Accountant with Main Hurdman in Jacksonville, Florida. From 1980-1983, I was a Supervisor for Ernst & Whinney in Roanoke, Virginia. I was promoted to Senior Manager in 1984 and served in that capacity until 1986. I moved to CP&L in 1986 as Manager of Financial and Contract Auditing in the Audit Services Department until 1991. From 1991-1995, I worked as the Controller for CP&L's Harris nuclear power plant. From 1995-1998, I served as Manager of Financial and Regulatory Accounting in CP&L's Accounting Department. I became Director of the Operations and Environmental Support Department of CP&L in 1998, and served in that position until 2000, when I took my current position as Vice President and Controller of Progress Energy. I am a Certified Public Accountant ("CPA") licensed in North Carolina and Florida and a Certified Internal Auditor. I am also a member of the American Institute of CPAs and of the North Carolina Institute of CPAs.

II. <u>Purpose and Summary of Testimony</u>

Q. What is the purpose of your direct testimony?

A. I appear on behalf of Florida Power to support the reasonableness of the Administrative and General ("A&G") portion of the Company's Operation and Maintenance ("O&M") expenses.

Q. Are you sponsoring any exhibits to your testimony?

A. Yes, as follows:

RHB-1 (SEC Order, Nov. 27, 2000)

RHB-2 (Service Company Organization Chart)

RHB-3 (Cost Allocation Manual)

RHB-4 (Progress Energy Assessment of Service Company Affiliate Transactions, Baryenbruch & Co.)

Q. What schedules in Florida Power's minimum filing requirements ("MFRs") do you sponsor?

A. I am sponsoring or co-sponsoring the following schedules of our MFRs: C-19, C-20, C-21, C-33, C-52, C-53, C-57, and C-61. These schedules are true and accurate, subject to their being updated in the course of this proceeding.

Q. Please summarize your testimony.

A. Administrative and General functions for Florida Power are now performed primarily through Progress Energy Service. The Service Company was formed and approved under the Public Utility Holding Company Act of 1935 ("PUHCA" or "the Act"). As part of the merger, the Securities and Exchange Commission ("SEC") reviewed and approved the creation and policies of Progress Energy Service. The Service Company is organized to be in compliance with the Act and with SEC rules regarding the operation of a subsidiary service company, namely, Section 13 of the Act, 15 U.S.C. § 79m and SEC rule 88(b), 17 C.F.R. § 250.88(b). The SEC's rules require, among other things, that the Service Company provide services efficiently and economically "at a cost fairly and equitably allocated among" operating subsidiaries. At the time of the merger, the SEC approved the Service Company's methodology for allocating costs among Progress Energy's respective subsidiaries. Progress Energy's cost-allocation program is designed to ensure that all costs are allocated fairly and equitably and that one company will not subsidize another.

Florida Power has forecasted that its A&G O&M costs for 2002 compare very favorably to the Florida Public Service Commission ("PSC") benchmark from Florida Power's previous rate case. Administrative and General expenses consist primarily of corporate benefit costs, human resources, finance, corporate communications, legal, regulatory affairs, corporate services (e.g., facilities, procurement), information technology ("IT"), and telecommunications. Florida Power has been able to manage and control its A&G expenses without sacrificing customer service or reliability. Overall, we are reporting a favorable variance of $89 million, including $25 million of merger synergies. At the time we filed our MFRs, we were projecting a favorable variance of $112 million from benchmark, including $25 million in merger synergies, based on the best information then available. However, since the filing of our MFRs, we have received an updated actuarial forecast for the pension plan of $31 million, which has caused the favorable variance in A&G expenses to decrease. The 2002 amount provided in the MFRs of $54 million was based on an earlier estimate provided by our outside actuarial consultant. The total variance is now reduced by $23 million to approximately the $89 million amount that I mentioned above, including $25 million in merger synergies. Due to cost-saving initiatives by Florida Power and synergies achieved by the merger, A&G expenses are approximately 12 percent lower relative to the benchmark. Florida Power will be able to achieve this result in significant part due to merger-related reductions in labor costs, the initiation of innovative pension and benefit programs, successful efforts to mitigate market risk in the area of insurance costs and medical care, and overall effective management of its utility system. Favorable market performance of investments in its pension funds during the period since its last rate case has contributed to this result as well.

III. <u>Role of the Service Company</u>

Q. Who administers A&G functions for Florida Power?

A. Progress Energy provides A&G functions for all of its subsidiaries in a centralized manner through Progress Energy Service. Progress Energy formed and operates the Service Company in strict compliance with PUHCA and with significant oversight of the SEC.

Q. What is PUHCA, and how does it impact Florida Power?

A. PUHCA was enacted in 1935 to respond to financial problems experienced by electric and gas utility holding company systems. It is administered by the SEC, which is charged with the responsibility of reviewing mergers, like ours, to ensure that they are not "detrimental to the public interest or the interest of investors or consumers or the proper functioning of [the] holding company system." Section

10(b) of the Act, 15 U.S.C. §79j(b). Among other requirements of PUHCA, Section 13(b) generally limits the amount that a subsidiary of a registered holding company may charge when it renders services or sells goods to any other company in the holding company system (i.e., any associate company) to such subsidiary's "cost," fairly and equitably allocated among all associate companies. The SEC must also approve the organization of subsidiary service companies, like Progress Energy Service, that are formed to centralize various management and administrative functions.

After a service company is established, the SEC monitors all financing activities, intercompany cost allocations, and affiliate transactions to ensure that all processes, methodologies, and policies support the full and equitable allocation of service company costs to all associate companies (including the holding company), both regulated and non-regulated. SEC rules require, among other things, that a service company must provide services efficiently and economically "at cost fairly and equitably allocated among" operating subsidiaries. Rule 88(b), 17 C.F.R. § 250.88(b). The SEC has prescribed a uniform system of accounts for service companies modeled on those prescribed by the Federal Energy Regulatory Commission for electric utilities. All service company charges must be limited to its "cost" of performing such services. The categories of services that a service company may perform and all cost allocation methods must be pre-approved by the SEC. Any modification in the categories of services provided or methods of allocation used by a service company must be approved by the SEC.

In anticipation of the merger, and in an effort to optimize efficiencies and to take full advantage of merger synergies, Progress Energy determined that it would be critical to centralize key services for its subsidiaries. Under PUHCA, a registered holding company may not sell services or goods to its subsidiaries directly, but only through an authorized mutual or subsidiary service company. Therefore, Progress Energy organized Progress Energy Service in August 2000 in anticipation of becoming a registered holding company following the merger. In its order approving the merger, dated November 27, 2000, attached as Exhibit RHB-1 to my testimony, the SEC also approved the Service Company's structure and cost allocation methodologies. The SEC found that the merger would not be detrimental to the public interest, the interests of investors, or the interests of consumers. (Order, at 92).

Any change in the categories of services or methods of allocation used by Progress Energy Service must be pre-approved by the SEC. Under the SEC's procedures, any such proposed changes must be submitted in writing at least 60 days prior to implementation for approval. The SEC may, if it chooses, direct that a formal application be filed for approval of the change. In addition, Progress Energy Service must file an annual report (on Form U-13-60), providing significant detail about its operations and cost allocations. Progress Energy Service's first annual report is due May 1, 2002 for the year 2001. The SEC will conduct periodic audits of our Service Company, and it will require that Progress

Energy play an active role in evaluating Service Company compliance with PUHCA through its internal audit functions.

Q. How is Progress Energy Service organized?

A. Please see Exhibit RHB-2. This is an organization chart for Progress Energy Service that identifies the company's functions.

Q. Generally speaking, how does the Service Company allocate costs?

A. I would like to reiterate that Progress Energy Service must allocate costs in strict compliance with PUHCA and SEC requirements. This means that we must allocate costs to those subsidiaries that receive the benefits of the services provided or that cause the costs to be incurred. Cost allocations must be fair, consistent, equitable, and logical. Whenever practical, we implement these principles by billing costs directly to subsidiaries that benefit from the respective service or cause it to be incurred. When services are provided in common to more than one subsidiary, however, we apply metrics that we have developed and that the SEC has approved to allocate costs on a fair and equitable basis. I will explain this further below.

Q. Please give a brief overview of the products and services provided by Progress Energy Service.

A. The Service Company provides processing, reporting, and management oversight for a variety of areas, including accounting, strategic planning, IT, corporate communications, human resources, audit services, environmental, legal, and regulatory and public affairs. Please see RHB-2 for a chart listing all Service Company departments and functions.

Q. How do Florida Power's customers benefit from the Service Company?

A. By forming the Service Company, we have been able to consolidate various corporate functions and eliminate duplicative resources. Specifically, we have integrated key corporate and administrative functions that Florida Power previously had to manage and support on its own. The Service Company now provides centralized management of strategic planning, treasury and finance, tax and accounting, payroll and benefits, risk management, legal and regulatory compliance, investor relations, human resources, IT, public relations, and other services. This integration has allowed the combined companies to reduce the number of redundant functions where staffing levels are relatively fixed and do not vary directly with an increase or decrease in the number of employees or customers, thus significantly reducing costs previously borne by Florida Power as a stand-alone utility. Likewise, Progress Energy Service will be able to lower costs by integrating many previously separate programs, including employee benefits, investor services, fleet systems, travel programs, purchasing practices, facilities management, security, and insurance, producing increased purchasing leverage and other economies of scale. As discussed in the Direct Testimony of Mark A. Myers (filed September 14, 2001), these merger synergies should produce annual savings in the A&G area amounting to $24.8 million. As Mr.

Myers further explains, even after the costs of bringing about the merger are offset against these synergies, customers should enjoy a net benefit, and once the costs are recovered, the opportunity will exist for customers to realize even greater benefits. Apart from cost savings, the centralization of management in the A&G area should improve the quality of operations, which will inure to the customers' benefit in many ways, as explained more fully by Mr. Myers.

Q. Please describe the cost-allocation methodologies employed by Progress Energy Service.

A. The costs of the Service Company are classified into various products. Each functional area has several products within it. As the first step in allocating costs, we assign or charge directly to an affiliate those costs associated with a product that specifically benefits a particular affiliate or that a particular affiliate caused the Service Company to incur. For example, if Progress Energy Service performs an IT project for Florida Power or incurs costs to improve Florida Power facilities, Progress Energy Service will assign the costs of these projects (or "products") directly to Florida Power.

Any costs that are not directly attributable to a particular affiliate are allocated to the various affiliates that use the service or product based on SEC-approved metrics. These metrics are basically objective formulas for allocating costs per customer, per square foot, per invoice, or on such other basis as may be appropriate to the kind of cost, service, or product involved. In accordance with

SEC requirements, the Service Company updates its metrics at least once every year.

In addition to allocating costs of products and services that Progress Energy Service itself provides to various affiliates, including Florida Power, the Service Company provides direction and oversight to ensure that each Progress Energy subsidiary fairly and equitably allocates costs among the appropriate affiliates, using uniform cost-allocation principles. In the course of the merger, the SEC approved the provision of certain utility services to Florida Power by CP&L, e.g., the management of nuclear operations. See Exhibit RHB-1 (Order, pp. 15-16). Regardless of whether shared functions and services are managed directly by Progress Energy Service or are operated through other Progress Energy subsidiaries with cost-allocation oversight by the Service Company, Progress Energy's entire cost-allocation program has been designed to guard against the subsidization of one entity at the expense of others.

Progress Energy's policies, procedures, methodologies, and metrics are described in detail in Exhibit RHB-3, the Cost Allocation Manual for Progress Energy Service. This Manual was prepared by Progress Energy Service for its use when supplying various administrative, management, and corporate support services to the regulated and non-regulated associate companies within the Progress Energy organization. The Manual also includes the description of services and the allocation methods used by Florida Power and other affiliates within the Progress Energy holding company system for specific shared services, under the auspices of the Service Company.

Q. Apart from review by the SEC, has the Service Company obtained outside review of its cost-allocation methodologies?

A. Yes. Progress Energy Service retained the services of the consulting firm Baryenbruch & Company to conduct an independent evaluation of the Service Company's cost-allocation methodology and procedures to determine whether they are well conceived to ensure that the Service Company will be equitable in allocating expenses to Progress Energy affiliates, will not result in ratepayers subsidizing non-regulated businesses, and will substantially comply with various regulatory commitments. (Accordingly, this review focused on methodology, processes, and systems rather than a review of particular transactions). I am including a copy of the resulting report as my Exhibit RHB-4. Barynenbruch's findings were: "Progress Energy's affiliate transaction processes and systems are very well designed and executed. The results are a fair and equitable distribution of Service Company costs to affiliates. Progress Energy was found to be in full compliance with the aspects of the Code of Conduct pertaining to Service Company cost accumulation and assignment. No instances were found where regulated utility companies were subsidizing non-regulated affiliates." (Report, p. 2).

IV. <u>Administrative and General Expenses</u>

Q. As the sponsor of Florida Power's MFRs detailing A&G O&M justification schedule, please provide an overview of Florida Power's performance in this area.

A. We are pleased to be able to report that Florida Power is performing very well in the area of A&G O&M expenses, holding O&M costs substantially below the PSC benchmark, as adjusted by the consumer price index ("CPI") and customer growth factor. We are projecting a favorable variance of approximately $89 million from the benchmark, including $25 million in merger synergies. If the merger synergies are excluded, the net favorable variance is $64 million.

At the time we filed our MFRs, we were projecting a favorable variance of $112 million from benchmark, including $25 million in merger synergies, based on the best information then available. However, since the filing of our MFRs, we have received an updated actuarial pension plan forecast for 2002 of $31 million, which has caused the favorable variance in A&G expenses to decrease. The 2002 amount provided in the MFRs of $54 million was based on an earlier estimate provided by our outside actuarial consultant. The total variance is now reduced by $23 million to approximately the $89 million amount that I mentioned above, including $25 million in merger synergies. The total variance would be $64 million without taking into account merger synergies. Please refer to the Direct Testimony of Mark Myers (submitted November 15, 2001) for additional details on the pension credit.

Q. Turning to the line items in the A&G Justification Schedule, please explain why the Company has projected a favorable variance of $42.6 million for "Pension Credit."

A. The favorable benchmark variance reported in the MFRs amounting to $42.6 million, as well as the updated benchmark variance of $19.5 million, reflect stock market performance since the date of our last rate case in funds invested to support pension payments under Florida Power's qualified pension plan. The $23 million change represents a difference from the MFRs due to updated actuarial forecast results reflecting the recent decline in the stock market. We handle the accounting for this item using the guidelines established in Financial Accounting Standards Board Statement ("FAS") No. 87, "Employer's Accounting for Pensions." The Commission approved the use of FAS 87 for ratemaking purposes in Docket No. 910890-EI, Order No. PSC-92-1197-F0F-EI (Oct. 22, 1992). Under these guidelines, a credit may be reflected when the expected return on plan assets exceeds our service cost and other components of pension expense.

In addition, we have been able to produce savings by converting Florida Power non-bargaining employees to the Progress Energy cash balance pension plan effective January 1, 2002. These savings are included in the $31 million pension credit as described in Mr. Myers' testimony. Under a cash balance plan, employees are advised of account balances. Annual interest is credited to their account balances, which currently under the plan is a minimum of 4 percent. Pay credits are added to account balances at the end of every year, based on eligible pay earnings that year. All participants receive pay credits based on their age. Should a participant leave the company, benefits can be paid either in a lump sum, an annuity, or a combination thereof.

A cash balance plan offers many benefits over a conventional retirement plan. Employees receive annual statements of their account balances, which is easier for most employees to understand. Account balances accumulate more quickly in the early years than the accrued benefit in traditional plans. This feature, along with the lump-sum provision, makes the plan more attractive to younger employees. One of the criticisms of cash balance plans is the loss of benefits to older employees. In order to protect this group of employees, the Progress Energy Plan provides transition credits, as described below.

For Florida Power employees, benefits under the Florida Progress Retirement Plan will be frozen and preserved for payment after termination or retirement from the controlled group of Progress Energy companies. Transition credits are applied to certain employees who were employed on the date Progress Energy acquired Florida Progress, November 30, 2000.

Depending on age and years of service, transition credits will be applied to employee accounts to produce a benefit under the merged plan (the frozen Florida Progress benefit plus the cash balance account value) that will approximate the pension that would have been received if the Florida Progress Retirement Plan formula had remained in effect, and assuming a normal retirement age of 65. The synergy savings from conversion to a cash balance plan described above are generated from the fact that the transition credits do not fully replicate the early retirement benefits under the Florida Progress Retirement Plan. Under the merged plan, eligible employees may achieve benefits comparable to benefits under the Florida Progress Retirement Plan by staying employed by a participating Progress Energy company until age 65.

Q. Why does the Company project a favorable variance of $15 million for "FAS 106 – Post-Retirement Benefits Other than Pensions"?

A. In Docket No. 910890-EI, Order No. PSC-92-1197-FOF-EI (Oct. 22, 1992), the Commission adopted FAS 106 "Employees Accounting for Postretirement Benefits Other than Pensions" for ratemaking purposes. Effective January 1, 1993, Florida Power began accruing obligations related to post-retirement benefits other than pensions (healthcare and life insurance) earned by employees. In 2002, Florida Power added dental and vision to these benefits. Also, annual increases in medical costs exceeded inflation during the 1990s. Florida Power took steps to mitigate these costs by "capping" certain benefits. Specifically, in 1997, Florida Power instituted dollar limits on company contributions per aggregate average costs. We have also experienced lower headcount in the benefit plans as the Company has downsized considerably since 1992 (even apart from merger-related downsizing efforts). In 2002, we adjusted the caps to achieve consistency among

Progress Energy plans. The cumulative impact of these cost controls is a favorable variance in relation to benchmark in the amount of $15 million.

Q. What is the basis for the favorable variance of $22.8 million for "Benefits Loading Allocation to other accounts"?

A. We are projecting a favorable variance of $22.8 million in this category due to a change in accounting procedure. Prior to 1997, Florida Power booked labor overhead allocation only to non-O&M accounts, such as construction. The balance remained in A&G accounts. The Company changed this accounting procedure when it implemented business unit reporting by loading all labor with benefits across the various FERC accounts. This was done to reflect the full costs (especially labor costs) associated with each business unit and thereby develop a more competitive focus in managing business unit costs. The net result is that less benefits are recorded in A&G expenses in 2002 and more are shifted to the labor costs in other O&M FERC accounts, such as production, transmission, distribution, etc. We have excluded the pension credit from this allocation due to its volatile nature and the influence of external market conditions.

Q. Why do you project a favorable variance of $3.8 million for "Property Insurance and Damages"?

A. We are projecting a favorable variance for this item primarily due to favorable trends in insurance coverage. First, Florida Power's participation in Nuclear Electric Insurance Limited ("NEIL") has substantially reduced nuclear property insurance costs. Under the NEIL plan, participating utilities have been able to receive credits against premiums due to excellent industry performance and increased investment income. As a result, in 2002, nuclear insurance premiums (net of NEIL credits) will be $7.7 million less than the benchmark. In addition, the Company's costs for injuries and damages insurance have decreased due to improved market conditions related to excess liability and director's and officer's liability.

These decreases in costs are partially offset by an increase in costs associated with implementation of a self-insurance program for transmission and distribution property. In Docket No. 930867-EI, Florida Power received permission to implement a self-insurance program for storm damage to its transmission and distribution facilities. Later, in Docket No. 940621-EI, Florida Power received permission to increase its storm damage accrual to $6 million annually, effective January 1, 1994. This has caused an increase of approximately $4.3 million over the benchmark amount. The remaining variance is due to other insurance costs over the ten-year period growing less than the CPI inflation rate due to industry performance.

Q. Are Florida Power's total projected A&G O&M expenses for 2002 reasonable?

A. Yes, they are. Progress Energy Service and Florida Power have been able to streamline the Company's A&G services and operations considerably as a result of the merger, and we are in a position to operate these areas in a highly cost-effective manner without compromising customer service or reliability. Both before and after the merger, Florida Power has taken and is continuing to take appropriate and effective steps to control A&G costs while still providing competitive compensation and benefits to employees and efficient and effective services.

Further, all costs are allocated on a fair and equitable manner to Florida Power in compliance with PUHCA and under the ongoing oversight of the SEC, and the Service Company engages in rigorous cost control, subjecting proposed expenditures to close scrutiny, internal challenge, and active management oversight. Overall, due to cost-saving initiatives by Florida Power and synergies achieved by the merger, A&G expenses are approximately 12 percent lower relative to the benchmark.

Q. Does this conclude your testimony?

A. Yes, it does.

CP&L Energy, Inc.

SECURITIES AND EXCHANGE COMMISSION

Release Nos. 35-27284, 70-9643

2000 SEC LEXIS 2570

November 27, 2000

ACTION:
[*1] Order Authorizing Acquisition of Exempt Holding Company by Exempt Holding Company and Related Transactions; Approving Organization of Service Company; Granting Exemption from Registration; and Denying Request for Hearing

TEXT: CP&L Energy, Inc. ("CP&L Energy"), Raleigh, North Carolina, a North Carolina public-utility holding company exempt from registration under section 3(a)(1) of the Public Utility Holding Company Act of 1935, as amended ("Act"), by rule 2, and Florida Progress Corporation ("Florida Progress"), St. Petersburg, Florida, a Florida public-utility holding company exempt from registration under section 3(a)(1) of the Act by rule 2, (together, "Applicants"), have filed an application-declaration ("Application") with the Securities and Exchange Commission ("Commission") under sections 3(a)(1), 6(a), 7, 9(a)(2), 10, and 13(b) of the Act and rules 80 through 91 in connection with a proposed acquisition of Florida Progress by CP&L Energy. Following the acquisition, CP&L Energy will register as a holding company under section 5 of the Act.

The Commission issued a notice of the Application on August 4, 2000 (Holding Co. Act Release No. 27208). The Commission received a request for [*2] a hearing from an individual.

I. Background

A. Summary of Proposals

As discussed further below, Applicants request authority for CP&L Energy to acquire all of the issued and outstanding shares of Florida Progress ("Merger"). Following the consummation of the Merger, CP&L Energy will register as a holding company under section 5 of the Act. CP&L Energy proposes to retain ownership of its and Florida Progress' nonutility businesses and requests that investments in nonutility businesses made prior to the effective date of the Merger not be counted in the calculation of the 15% investment limitation of rule 58. CP&L Energy also proposes to retain Florida Progress as an intermediate holding company for an interim period and seeks an order exempting Florida Progress from registration under section 3(a)(1) of the Act following the Merger.

Applicants further request the Commission to approve the organization of a company that will serve as the CP&L system service company and to approve the continuation and extension of two long-term coal supply agreements under which a nonutility associate company sells coal to Florida Power for use at its Crystal River nuclear generating facility [*3] in Citrus County, Florida.

B. Parties

1. CP&L Energy

CP&L Energy has two utility subsidiaries, Carolina Power & Light Company ("CP&L") and North Carolina Natural Gas Corporation ("NCNG"). n1 CP&L, the predominant subsidiary of CP&L Energy, is primarily engaged in the business of generating, purchasing, transmitting and distributing electricity in a 33,667 square mile area of North Carolina and South Carolina (the "Eastern Area"). The principal load centers within this region include Raleigh and Wilmington, North Carolina. CP&L also serves customers in a seven-county area in and around Asheville in western North Carolina. (the "Western Area"). At December 31, 1999, CP&L furnished electric service to approximately 1.2 million customers.

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n1 *See CP&L Energy, Inc.*, Holding Co. Act Release No. 27188 (June 15, 2000) (approving reorganization of CP&L into a holding company structure).

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The Eastern and Western Areas are separated by and interconnected with the transmission system of Duke Power Company ("Duke Power"). [*4] Both are also interconnected with the transmission facilities of American Electric Power Company, Inc. ("AEP"). CP&L operates the Eastern and Western Areas as separate control areas within the Virginia-Carolinas Subregion ("VACAR") of the Southeastern Electric Reliability Council ("SERC"), a regional electric reliability and planning organization of which CP&L is a member.

As of December 31, 1999, CP&L owned or controlled 10,128 MW of installed generating capacity, 5,585 pole miles of transmission lines, over 44,294 pole miles of overhead distribution lines and nearly 13,842 miles of underground distribution lines. In 1999, CP&L's total system energy supply was 61,151 million kilowatt hours ("kWh"), of which 56,019 million kWh was generated by units owned or controlled by CP&L and 5,132 million kWh purchased from third parties.

CP&L is subject to regulation by the North Carolina Utilities Commission (the "North Carolina Commission") and the South Carolina Public Service Commission (the "South Carolina Commission") with respect to retail electric rates, securities issuances, affiliate transactions and other matters, and by the Federal Energy Regulatory Commission (the "FERC") with [*5] respect to wholesale electric and electric transmission rates.

CP&L's subsidiary, NCNG, supplies gas or gas transportation service to approximately 178,000 customers in 110 communities in eastern and south central North Carolina and to four municipal gas distribution systems. n2 NCNG purchases gas from a variety of out-of-state sources (chiefly in the Gulf Coast and Southwest producing areas), most of which is delivered to NCNG under long-term contracts with Transcontinental Gas Pipe Line Corporation and Columbia Gas Transmission Corporation. There is substantial overlap between CP&L's electric service area and NCNG's gas service area. Approximately 29% of NCNG's retail and wholesale gas customers are also electric customers of CP&L.

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n2 CP&L, which acquired NCNG on July 15, 1999, became a public-utility holding company by reason of the acquisition. CP&L claims exemption from registration under section 3(a)(2) of the Act by rule 2.

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NCNG's natural gas system consists of approximately 1,128 miles of transmission pipeline [*6] and 2,865 miles of distribution mains. n3 NCNG purchases gas for its bundled retail sales (which account for approximately half of the total gas throughput on the NCNG system) under a variety of long-term, short-term and spot market purchase agreements. NCNG is subject to regulation by the North Carolina Commission with respect to rates, securities issuances, affiliate transactions and other matters.

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n3 NCNG recently sold its propane distribution business in North Carolina to an unaffiliated third party.

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As of June 30, 2000, CP&L Energy had issued and outstanding 159,608,055 shares of common stock, without par value. For the twelve months ended June 30, 2000, CP&L's consolidated operating revenues were $ 3,601,300,000 (of which $ 3,224,700,000 (89.6%) were derived from electric utility operations, $ 246,300,000 (6.8%) from regulated natural gas operations, and $ 130,300,000 (3.6%) from diversified nonutility activities); operating income of $ 883,999,000; and net income of $ 418,100,000. At June 30, 2000, CP&L had consolidated [*7] assets of $ 9,771,600,000, including net utility plant of $ 6,870,500,000. n4

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n4 The nonutility businesses of CP&L Energy are described in Appendix A to the order.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

2. Florida Progress

Florida Progress owns all of the issued and outstanding common stock of Florida Power, an electric utility that serves approximately 1.4 million customers in a 20,000 square mile area of central and northern Florida, including St. Petersburg, Clearwater and the areas around Orlando.

The Florida Power electric system, as of December 31, 1999, had 9,567 MW of total generating capacity. This amount includes total net winter dependable generating capacity of 8,267 MW and total purchased power of 1,300 MW. In 1999, Florida Power's total system energy supply was 40,304 million kWh, of which 32,261 kWh was generated by units owned or controlled by Florida Power and 8,043 million kWh was purchased from third parties. As of December 31, 1999, Florida Power owned 4,687 circuit miles of high voltage transmission lines and 25,409 circuit miles [*8] of distribution lines.

In addition, Florida Power, together with other utilities and municipalities, owns 13 transmission lines that interconnect peninsular Florida with The Southern Company ("Southern"). These ties have a limited transfer capability relative to the total load in peninsular Florida. The owners operate the lines as a single interface with Southern (the "Interface"). They have allocated and assigned the total transfer capability over the Interface among themselves pursuant to the Florida-Southern Transmission Allocation Agreement ("Interface Agreement"), dated May 14, 1990. n5 Florida Power is currently allocated 438 MW of the 3,600 MW import capability over the Interface. Florida Power uses most of this capability in connection with its purchases of approximately 400 MW from the Southern operating companies under a unit power sales agreement (the "Southern UPS Agreement"). Florida Power is allocated 231 MW and 304 MW, respectively, of the Southern Interface's 1,900 MW summer export capacity and 2,500 MW winter export capacity.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n5 The FERC has approved the Interface Agreement. *See Florida Power & Light Co., 52 FERC P 61,105* (July 30, 1990).

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -
[*9]

Florida Power is a member of the Florida Reliability Coordinating Council, which is responsible for ensuring the reliability of the bulk power electric system in peninsular Florida. Florida Power is subject to regulation by the Florida Public Service Commission (the "Florida Commission") regarding rates, securities issuances, affiliate transactions, and other matters and by the FERC with respect to wholesale electric and electric transmission rates and other matters.

As of June 29, 2000, Florida Progress had issued and outstanding 98,614,831 shares of common stock, without par value. n6 For the twelve months ended June 30, 2000, Florida Progress reported consolidated operating revenues of $ 4,092,000,000, of which $ 2,713,500,000 (66.3%) were derived from electric utility operations and $ 1,378,500,000 (33.7%) were derived from nonutility activities. As of June 30, 2000, Florida Progress had total assets of $ 6,646,400,000, including net utility plant of $ 3,581,400,000. n7

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n6 Florida Progress has not issued any preferred stock or debt securities.

n7 A complete list of the nonutility businesses in which Florida Progress has an interest is contained in Appendix A to this order.

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[*10]

C. Merger and Post-Merger Corporate Structure

Under an Amended and Restated Agreement and Plan of Exchange, dated August 22, 1999, as amended March 3, 2000, each share of Florida Progress common stock will automatically be exchanged for the right to receive $ 54 in cash, CP&L Energy common stock, or a combination of cash and CP&L Energy common stock (the "Share Exchange"). In the Share Exchange, Florida Progress shareholders may elect to receive in exchange for each share of Florida Progress common stock either (1) $ 54 in cash, or (2) a number of shares of CP&L Energy common stock equal to the exchange ratio, which is designed to provide Florida Progress shareholders with CP&L Energy common stock having a market value of $ 54, subject to certain limitations. n8

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n8 The exchange ratio will be determined by dividing $ 54.00 by the average of the closing sale price per share of CP&L Energy common stock as reported on the New York Stock Exchange Composite Tape on each of the twenty consecutive trading days ending with the fifth trading day immediately preceding the closing date (the "Average Closing Price"). If, however, the Average Closing Price is greater than $ 45.39, the exchange ratio will be fixed at 1.1897, and if the Average Closing Price is less than $ 37.13, the exchange ratio will be fixed at 1.4543. The actual value of stock consideration received for each Florida Progress share will depend on the market value of CP&L Energy common stock at the completion of the Share Exchange. Therefore, if the Average Closing Price is less than $ 37.13, then each share of Florida Progress common stock exchanged for stock consideration will be valued in the Share Exchange at less than $ 54.00, and if the Average Closing Price is more than $ 45.39, then each share of Florida Progress common stock exchanged for stock consideration will be valued in the Share Exchange at more than $ 54.00.

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[*11]

Initially, CP&L Energy will finance the cash portion of the Share Exchange, which is estimated not to exceed $ 3.5 billion, and other costs of the transaction, with a $ 3.75 billion bank facility with a maturity of 364 days. The bank facility will serve as a backstop for the issuance of commercial paper. CP&L Energy may extend one-half of the facility for an additional year. It is anticipated that the bank facility/commercial paper will be refinanced with long-term debt within twelve months of the closing.

In addition to the consideration described above, shareholders of Florida Progress will receive one contingent value obligation ("CVO") for each share of Florida Progress common stock that they hold. Each CVO will represent the assignable and transferable right to receive a *pro rata* portion of certain contingent payments that are based upon the net after-tax cash flow to CP&L Energy generated by four synthetic fuels plants (referred to as the "EARTHCO plants") that Florida Progress purchased in October 1999. The CVOs are intended to provide Florida Progress shareholders with the opportunity to receive additional cash consideration in the Share Exchange linked specifically to [*12] the future performance of the EARTHCO plants.

As a result of the Share Exchange, Florida Progress will become a direct wholly owned subsidiary of CP&L Energy. CP&L Energy will own, directly, all of the common stock of CP&L, NCNG and Florida Power. In addition to its existing nonutility subsidiaries, CP&L will own all of the nonutility subsidiaries of Florida Progress.

D. Other Proposals

1. Service Company

CP&L Energy has organized CP&L Service Company LLC ("CP&L Service") as a system service company. Applicants request the Commission to find under rule 88(b) that CP&L Service "is so organized and conducted, or to be so conducted, as to meet the requirements of Section 13(b) of the Act with respect to reasonable assurance of efficient and economical performance of services or construction or sale of goods for the benefit of associate companies, at cost fairly and equitably allocated among them (or as permitted by [rule] 90)."

CP&L Service will enter into a Utility Service Agreement with each of its associate public-utility companies and a Nonutility Service Agreement with each of its associate nonutility companies. The Service Agreements provide that CP&L Service may provide [*13] its associate companies with certain administrative and corporate support services, such as strategic planning, treasury, tax, accounting, legal, human resources, information systems, investor relations and public relations. For any service provided, CP&L Service will be reimbursed for its cost of providing the service, determined in accordance with rules 90 and 91. To the extent possible, CP&L Service will identify and assign all of its direct costs incurred in providing any service to a client company, including labor overheads (*e.g.*, payroll taxes, employee benefits, etc.) Other costs that cannot be identified to a particular client company, or that benefit all clients, will be allocated to all client companies in accordance with the methods of allocation included in the Service Agreement. An internal audit group will, among other things, audit the assignment of service company charges to client companies.

Following the Share Exchange, CP&L Service will evaluate and consider changes to the methods of allocation described in Appendix A to the Service Agreements in order to assure a fair and equitable allocation of costs of CP&L Service to all associate companies, including CP&L [*14] Energy. Among other possible changes, CP&L Service will review its experience in applying the "modified Massachusetts formula ratio," as defined in Appendix A, to categories of services that typically benefit all associate companies, and will propose such changes or alternative methods of allocation as may be necessary to assure that CP&L Energy bears an appropriate share of CP&L Service's costs. CP&L Service will propose such changes, if required, in accordance with the 60-day letter procedure described below, on a timetable that will allow for full implementation of such changes not later than March 31, 2002.

CP&L Service will maintain its accounts, cost-accounting procedures and other records in accordance with the requirements of the Commission's Uniform System of Accounts for Mutual Service Companies and Subsidiary Service Companies, utilizing, however, the chart of accounts specified in the FERC Uniform System of Accounts for Public Utilities and Licensees (18 C.F.R. Part 101). CP&L Service will prepare and submit a policies and procedures manual to the Commission staff by June 30, 2001. CP&L Service will file an annual report on Form U-13-60 in accordance with rule 94, commencing [*15] with the report for calendar year 2001.

The Utility and Nonutility Agreements provide that no material change in the organization of CP&L Service, the type and character of the companies to be served, the methods of allocating costs to associate companies, or in the scope or character of the services to be rendered subject to section 13 of the Act, or any rule, regulation or order thereunder, shall be made unless and until CP&L Service shall first have given the Commission written notice of the proposed change not less than sixty days prior to the proposed effectiveness of any such change. If, upon the receipt of any such notice, the Commission shall notify CP&L Service within the sixty-day period that a question exists as to whether the proposed change is consistent with the provisions of section 13 of the Act, or any rule, regulation or order thereunder, then the proposed change shall not become effective unless and until CP&L Services shall have filed an appropriate declaration regarding such proposed change and the Commission shall have permitted the declaration to become effective.

2. Provision of Goods and Services by the Operating Companies

CP&L, NCNG and Florida Power [*16] may provide services, upon request, to CP&L Service or to other associate companies utilizing personnel who will not be transferred to CP&L Service, and other resources and capabilities developed in the conduct of public utility operations. These services will include transmission and distribution support, customer service support, telecommunications support, nuclear support, power operations support, gas and energy services support, and information technology support, among others. In addition, Florida Power employees may, if requested, provide certain corporate support services (*e.g.*, legal, internal audit, financial and risk management, cash management, etc.) to CP&L Service and/or Electric Fuels Corporation, the predominant nonutility subsidiary of Florida Progress, on an interim basis, pending the transfer of such employees to CP&L Service. It is anticipated that Florida Power employees who would provide these types of services will be transferred to CP&L Service effective January 1, 2002, at which point all corporate support service functions will be conducted through CP&L Service.

Services will be provided to associate companies in accordance with rules 87, 90 and 91 under [*17] the Act. Moreover, in accordance with these rules, certain goods may be provided through a leasing arrangement or otherwise by one utility operating company to one or more associate companies, and certain assets may be used by one utility operating company for the benefit of one or more other associate companies.

3. Coal Sales by Electric Fuels to Florida Power

Applicants also propose to continue and extend two long-term coal supply agreements under which Electric Fuels Corporation ("Electric Fuels"), an energy and transportation company and an indirect subsidiary of Florida Progress, sells coal to Florida Power for use at Florida Power's Crystal River nuclear generating facility, located at Crystal River in Citrus County, Florida. Most of the coal delivered by Electric Fuels to Florida Power comes from unaffiliated mines. Coal purchased by Electric Fuels from affiliate suppliers under long-term contracts is priced at market rates in accordance with a Florida Commission order, and coal purchases from affiliate suppliers under spot contracts are at market prices that are subject to review by the Florida Commission. The price charged by Electric Fuels to Florida Power is equal to [*18] the sum of the costs incurred by Electric Fuels for coal, which includes: (i) Electric Fuel's cost of coal, (ii) the cost of transportation to the Crystal River station by rail or water, (iii) Electric Fuel's other expenses relating to procurement and transportation, and (iv) a return on Electric Fuels' equity investment associated with assets dedicated to regulated businesses, at the rate of return on equity authorized by the Florida Commission for Florida Power.

The price that Electric Fuels charges Florida Power under the two contracts for rail-delivered coal from Electric Fuels' mines is equal to the sum of the costs incurred by Electric Fuels for coal, which includes (i) Electric Fuels' cost of coal, (ii) the cost of transportation to the Crystal River station by rail, (iii) Electric Fuels' other expenses relating to procurement and transportation (including quality analysis, laboratory and laboratory-related expenses, railcar and locomotive expenses, depreciation, amortization, general and administrative expenses, interest, and a provision for income taxes), and (iv) a return on Electric Fuels' equity investment associated with assets dedicated to regulated businesses, primarily [*19] the railcars and locomotives, at the rate of return on equity authorized by the Florida Commission for Florida Power (currently 12%). The price Electric Fuels charges Florida Power under the two contracts for water-delivered coal is equal to the sum of Electric Fuels' cost of coal; Electric Fuels' expenses, as described in clauses (i) and (ii) of this paragraph; and a market-based component for water-borne transportation under a methodology approved by the Florida Commission.

Applicants believe that the pricing terms under the two coal supply agreements are permitted by rules 81, 90(d)(2) and 92(b), as applicable.

4. Exemption of Florida Progress

CP&L Energy proposes that Florida Progress will remain a direct, wholly owned subsidiary for up to eight years following the Merger. During this period, Florida Progress would continue to own, among other interests, all of the issued and outstanding common stock of Florida Power. Applicants state that it is desirable to retain Florida Progress as a holding company subsidiary of CP&L Energy in order to avoid repayment of debt and preferred securities issued by Florida Progress subsidiaries and guaranteed by Florida Progress. Applicants [*20] request an order under section 3(a)(1) of the Act granting Florida Progress an exemption from all provisions of the Act except section 9(a)(2). n9

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n9 Applicants acknowledge that the grant of exemption will have no effect upon the status of Florida Progress and its subsidiaries as direct and indirect subsidiaries of a registered holding company.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

Section 3(a)(1) of the Act makes an exemption available where:

[the] holding company, and every subsidiary company thereof which is a public-utility company from which such holding company derives, directly or indirectly any material part of its income, are predominantly intrastate in character and carry on their business substantially in a single State in which such holding company and every subsidiary company thereof are organized.

Applicants state that these requirements are satisfied. Both Florida Progress and Florida Power are incorporated in Florida, and all of Florida Power's operations are in Florida. Our order grants the requested intrastate exemption to Florida Progress. [*21]

E. Other Approvals

The shareholders of CP&L Energy and Florida Progress approved the proposed transaction on August 16 and 17, 2000, respectively.

1. Federal Approvals

The FERC issued its order approving the Merger on July 12, 2000. n10 The Nuclear Regulatory Commission (the "NRC") approved the transfer through the Merger of indirect control over the operating license for the Crystal River nuclear generating facility from Florida Progress to CP&L Energy on May 22, 2000. On various dates between May 24 and July 18, 2000, the Federal Communications Commission (the "FCC") granted authority to transfer licenses held by Florida Power and Progress Telecommunications Corporation, an exempt telecommunications within the meaning of section 34 of the Act. Finally, Applicants filed notification and report forms under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR Act"), with the Federal Trade Commission (the "FTC") and the Department of Justice (the "DOJ"). On July 12, 2000, the DOJ notified Applicants of the early termination of the applicable waiting period.

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n10 *CP&L Holdings, Inc. and Florida Progress Corp.*, Order Authorizing Merger and Accepting for Filing Proposed Joint Open Access Transmission Tariff and System Integration Agreement, Subject to Modification, Dkt. Nos. EC00-55-000 and ER00-1520-000 (July 12, 2000) (the "*FERC Order*").

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[*22]

2. State Approvals

The North Carolina Commission approved CP&L Energy's proposed acquisition of Florida Progress and issuance of common stock without par value on August 22, 2000. Applicants state that the Merger does not require the prior approval of either the South Carolina Commission or the Florida Commission. n11

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n11 Applicants state that they have been meeting with the Florida Commission regarding its ongoing jurisdiction over Florida Power. Applicants further state that the South Carolina Commission, through the conditions that it established in approving CP&L's reorganization as a holding company, *see RE: Carolina Power & Light Co., et al.*, Dkt Bo. 1999-434-E/C-Order No. 2000-0229, Order Approving Transfer of Ownership to a Holding Company and Approving Stipulation (Mar. 6, 2000), and the exercise of its powers to regulate electric utilities, will continue to have comprehensive regulatory oversight over CP&L's operations.

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Applicants further state that Mid-Continent Life Insurance Company ("Mid-Continent"), [*23] an indirect subsidiary of Florida Progress domiciled in Oklahoma that provides life insurance services in numerous states, has obtained an exemption from the insurance regulatory authority in Oklahoma with respect to the indirect change of control of Mid-Continent caused by the Share Exchange.

II. Discussion

The acquisition of Florida Progress by CP&L Energy requires our prior approval under sections 9(a) and 10 of the Act. The request for an order granting Florida Progress an exemption from registration following the Merger is subject to section 3(a)(1) of the Act. The organization of the CP&L Energy system service company is subject to section 13 of the Act and rule 88(b). The proposed continuation of coal sale agreements between Electric Fuels and Florida Power is subject to section 13(b) of the Act and rules 81 and 90 through 92.

We have reviewed the proposed transactions and find that the requirements of the Act are satisfied. Our application of the integration standards of the Act is central to our approval of the Merger and, accordingly, is discussed below.

A. The Utility Operations in General

Section 10(c)(1) of the Act requires us not to approve an acquisition that [*24] "would be detrimental to the carrying out of the provisions of section 11." n12 Section 11(b)(1) of the Act, in turn, generally limits the utility properties of a registered holding company to a "single integrated public-utility system," either gas or electric. An exception to this requirement is provided in section 11(b)(1)(A) -- (C) (the "ABC clauses"). A registered holding company may own more than one integrated system, gas or electric, if each additional system meets the criteria of these clauses. n13

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n12 Section 10(c)(1) further prohibits approval of an acquisition that "is unlawful under the provisions of section 8." Section 8 prohibits an acquisition by a registered holding company of an interest in an electric utility and a gas utility serving the same area without the express approval of the state commission when that state's law prohibits or requires approval of the acquisition.

The Merger will not create any new situation of common ownership of combination systems within a given state. Following the Merger, CP&L will continue to provide electric service, and NCNG gas utility services, in North Carolina. Because North Carolina law does not prohibit combination gas and electric utilities serving the same area, the Merger does not raise any issue under section 8 or the first clause of section 10(c)(1). [*25]

n13 Specifically, the Commission must find that (A) the additional system "cannot be operated as an independent system without the loss of substantial economics which can be secured by the retention of control by such holding company of such system," (B) the additional system is located in one state or in adjoining states, and (C) the combination of systems under the control of a single holding company is "not so large . . . as to impair the advantages of localized management, efficient operation, or the effectiveness of regulation." The standards of each clause must be satisfied. *See New Century Energies, Inc.*, Holding Co. Act Release No. 26748 (Aug. 1, 1997) (the "*1997 NCE Order*") (authorizing NCE's ownership of both gas and electric systems under the ABC clauses) (citations omitted).

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Section 10(c)(2) of the Act further requires the Commission to find that a proposed acquisition "will serve the public interest by tending towards the economical and efficient development of an integrated public-utility system."

Section 2(a)(29)(A) of the Act defines an integrated public-utility system, as [*26] applied to electric utility properties, to mean:

a system consisting of one or more units of generating plants and/or transmission lines and/or distributing facilities, whose utility assets, whether owned by one or more electric utility companies, are physically interconnected or capable of physical interconnection and which under normal conditions may be economically operated as a single interconnected and coordinated system confined in its operations to a single area or region, in one or more States, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation.

We read each standard of section 2(a)(29)(A) in conjunction with the other provisions of the Act, and in light of the facts under consideration and the other objectives of the Act. n14

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n14 *See generally American Electric Power Co., 46 S.E.C. 1299 (1978). See also Sempra Energy*, Holding Co. Act Release No. 26971 (Feb. 1, 1999), citing *North American Co., 18 S.E.C. 459,463 (1945)* (in applying the integration standards for gas utility systems, the Commission has "read each standard of section 2(a)(29)(B) in connection with the other provisions of the section").

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[*27]

Section 2(a)(29)(B) of the Act defines an integrated public-utility system, as applied to gas utility properties, to mean:

a system consisting of one or more gas utility companies which are so located and related that substantial economies may be effectuated by being operated as a single coordinated system confined in its operation to a single area or region, in one or more States, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation: Provided, That gas utility companies deriving natural gas from a common source of supply may be deemed to be included in a single area or region.

In view of the separate definitions and their differing criteria, the Commission has long held that gas and electric properties do not together constitute an integrated system. n15

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n15 *Id.* (citations omitted).

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Following the Merger, CP&L Energy will own an electric system consisting of the combined electric [*28] operations of CP&L and Florida Power (the "CP&L Energy Electric System"), and a gas system consisting of the gas operations of NCNG (the "CP&L Energy Gas System"). The issues to be decided are whether the CP&L Energy Electric System will constitute an electric integrated system and whether CP&L Energy may own the CP&L Energy Gas System as an additional system. As a preliminary matter, it is necessary to determine whether the existing electric operations of CP&L constitute an integrated system. n16

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n16 Because we find below that the Western and Eastern Areas constitute an electric integrated system, we do not address Applicants' proposal in the alternative that CP&L Energy retain the Western Area as an additional system.

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B. Existing Electric Operations of CP&L

The Western Area has been part of CP&L since 1926, when CP&L acquired Asheville Power & Light Company. As noted above, the Western Area is separated from the much larger Eastern Area by a portion of the Duke Power system. The Eastern and Western Areas are interconnected [*29] by the transmission facilities of both Duke Power and AEP, and both operate as parts of the VACAR subregion of SERC. Applicants state that power supply, dispatch and planning of new generation for both areas have long been coordinated on a single system basis. Transfers of electricity between the Eastern and Western Areas for both reliability and economy purposes have been frequent and substantial. n17

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n17 For example, in 1997, 1998 and 1999, transfers from the Eastern to the Western Area totaled 365,000megawatt hours ("MWh"), 890,000 MWh and 542 MWh, respectively. The 1999 transfers from east to west represented about 16% of the electricity purchased by the Western Area's customers in that year (3.4 million MWh).

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Following the statutory definition of section 2(a)(29)(A), we have recognized four standards that must be met before we will find that a proposed combination of utility properties will result in an integrated system. Of significance here is the requirement that the combined utility assets be physically interconnected [*30] or capable of physical interconnection (the "interconnection requirement"). n18

- -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n18 The other requirements are:

the combined utility assets, under normal conditions, must be economically operated as a single interconnected and coordinated system (the "economic and coordinated operation requirement");

the system must be confined in its operations to a single area or region (the "single area or region requirement"); and

the system must not be so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation (the "no impairment requirement").

See, e.g., Environmental Action, Inc. v. SEC, 895 F.2d 1255, 1263 (9th Cir. 1990), citing *Electric Energy Inc., 38 SEC 658, 668 (1958)*.

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An issue arises with respect to interconnection as the result of a change in the operations of the Eastern and Western Areas in 1999. Applicants state that, historically, [*31] the Western Area did not generate enough electricity internally to meet its peak service loads. As a result, CP&L would transfer power from the Eastern to the Western Area using a contract path for up to 275 MW of firm transmission capacity over the Duke Power system. CP&L also purchased up to 400 MW of electricity from Duke Power for delivery to either the Eastern or the Western Area under a long-term power purchase agreement.

Applicants state that CP&L recently built new generation to serve the Western Area. As a result, it became uneconomical to maintain the 275 MW contract path. CP&L determined that the transmission requirements between the Eastern and Western Areas could be met under the open access tariffs ("OATTs") of Duke Power and/or AEP. Accordingly, CP&L terminated its firm transmission agreement with Duke Power in June 1999, when the power purchase agreement was allowed to expire at the end of its term.

In recent mergers, we have found interconnection to be established largely on the basis of a contractual arrangement with one or more third parties that would enable the combining utility companies to move power from one part of the resulting electric system to another. [*32] These contractual arrangements provided for transmission of power on a firm annual basis, although the companies also planned to achieve interconnection by utilizing non-firm shorter-term transmission. n19 A similar finding would be possible in this matter if the 275 MW contract path with Duke Power were still in place.

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n19 Applicants undertook to seek approval of an alternative means of interconnection, if the contract path were not renewed. *See, e.g., Exelon Corp.*, Holding Co. Act Release No. 27256 (Oct. 19, 2000), citing *Energy East Corp.*, Holding Co. Act Release No. 27224 (Aug. 31, 2000) (citations omitted).

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The absence of this contract path, however, does not preclude a finding that the Eastern and Western Areas are physically interconnected, because CP&L can obtain adequate transmission service through open access under the OATTs of Duke Power and other transmission arrangements with Duke Power and AEP to establish physical interconnection of the two areas.

"Open access" is the requirement that all utilities [*33] subject to FERC jurisdiction open their transmission systems and allow any qualified entity to use their system to deliver electricity at a fair and non-discriminatory rate. n20 Open access transmission makes it possible now for the Eastern and Western Areas to coordinate their operations through the use of OATTs and OASIS. Applicants state that open access transmission offers a better, more flexible and more economical way to achieve significant interchange capability than the more traditional firm contract path. They explain that reliance on numerous transmission service reservations increases the number of potential interconnection options and allows utilities to use less expensive non-firm products where appropriate, while providing a high level of assurance that transmission capacity will be available when needed. Utilities can obtain a portfolio of transmission capacity over multiple paths, with various degrees of firmness, providing for various amounts of capacity that can be selected to achieve optimal integrated operations. Today, interchange capacity can be achieved via a portfolio of short-term firm and non-firm transmission at a lower comprehensive cost than the more limited, [*34] rigid, single firm contract path.

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n20 Open access came about in 1996 in FERC's Order No. 888 and its progeny. *See* Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Service by Public Utilities; Recovery of Stranded Costs by Public Utility and Transmitting Utilities, FERC Stats. & Regs., Regulations Preambles, P 31,036 (1996) ("Order No. 888"), *order on rehearing*, FERC Stats. & Regs., Regulations Preambles, P 31,048 (1997) ("Order No. 888-A"), *order on rehearing, 81 FERC P 61,248 (1997)* ("Order No. 888-B"), *order on rehearing, 82 FERC P 61,046 (1998)* ("Order No. 888-C").

Order No. 888's key provision was the requirement that utilities file standard OATTs under which a transmission provider must offer service to any qualified user. OATTs provided utilities, other generation owners and power marketers for the first time with a generally available right to use the transmission systems of others to move power at tariffed rates. Open access is available to all on minimal notice and at standard terms. In the past, inter-company transmission required complex, separately negotiated agreements.

In Order No. 889, FERC also mandated that transmission owners establish a comprehensive information system regarding the availability and price of their transmission service on an Internet site called Open Access Same-Time Information System ("OASIS"). The OASIS is an electronic bulletin board on which transmission operators post the amount of transmission capacity that is available to potential purchasers. The OASIS provides an easy-to-use means for utilities to use the interstate transmission grid to coordinate their operations day to day.

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[*35]

We have recognized in previous orders that open access transmission can contribute to interconnection and coordination. n21 Applicants state in this matter that the availability of transmission capacity on an as-needed basis under the OATTs of Duke Power, together with other transmission arrangements on the Duke Power and AEP systems that allow for the delivery of power to either the Eastern or the Western Area demonstrate that the two areas are "physically interconnected or capable of physical interconnection," as required by section 2(a)(29)(A) of the Act.

- -FOOTNOTES- - - - - - - - - - - - - - - - - - - -

n21 *See, e.g., American Electric Power Co., Inc.*, Holding Co. Act Release No. 27186 (June 14, 2000) (the "*2000 AEP Order*") (in addition to the use of a 250 Contract Path, quantities in excess of 250 MW could be moved within the New AEP System in any given hour by using non-firm transmission rights); *New Century Energies, Inc.*, Holding Co. Act Release No. 27212 (Aug. 16, 2000) (the "*2000 NCE Order*") (although completion of tie-line under construction between two system utilities would facilitate coordinated dispatch, coordination of dispatch and power exchanges could be achieved prior to completion of the line by service company's obtaining both firm and non-firm transmission needed for the utilities to engage in transactions); and *Energy East Corp., supra* note 19.

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[*36]

Although CP&L does not currently contract for long-term firm transmission service from either company specifically for the purpose of wheeling power between the Eastern and Western Areas, CP&L does utilize the Duke Power transmission system to facilitate transfers of power to the two areas. n22

- -FOOTNOTES- - - - - - - - - - - - - - - - - - - -

n22 In December 1998, CP&L entered into an agreement to purchase all of the output of a 500 MW gas-fired independent power project that is located in Duke Power's service area in South Carolina. In July 2000, CP&L entered into an agreement for the entire output of two additional gas-fired units at the same site, which increased to total purchase commitment to approximately 800 MW. The first three of five units of that project went into service in the summer of 2000, and the fourth and fifth units are expected to go into service in July 2001 and June 2002, respectively. Both purchase agreements have an initial term of 20 years and provide CP&L with control over the scheduling of the units. CP&L has reserved long-term transmission rights on the Duke Power system that will enable it to schedule delivery of the output to either the Eastern or Western Area. Deliveries to the Eastern Area are based on a firm reservation of 460 MW; for delivery to the Western Area, CP&L relies on the availability of non-firm transmission capacity under Duke Power's OATTs.

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[*37]

CP&L also relies, in part, on the availability of relatively large amounts of monthly firm and non-firm east-to-west transmission capacity over the AEP system. For example, AEP's OASIS postings show monthly non-firm available transmission capacity ("ATC") values for transfers from the Eastern to the Western Area varying from 780 MW to 920 MW for the period from October 2000 through October 2001. In addition to this currently posted non-firm ATC, CP&L has reserved 303 MW of firm yearly point-to-point transmission service over the Duke Power system between the Eastern and the Western Area through December 2002. Although this reservation was made to support wholesale sales to the Tennessee Valley Authority ("TVA"), which is directly interconnected with the Western Area, the 303 MW contract path can be used on a non-firm basis to wheel power from the Eastern to the Western Area. Thus, the path provides an alternative means of moving power across the Duke Power transmission system.

Applicants further note that additional long-term firm transmission capacity is currently available for 2001 and 2002 (and, presumably, later years) across both the Duke Power and AEP systems. This availability [*38] could allow for additional power deliveries, east to west or west to east, of several hundred MW. Moreover, the relatively large amount of transmission capacity posted as available on a short-term basis over the next 12-month period suggests that transmission service to interconnect the Eastern and Western Areas will be available most of the time during 2001 and later years, even if CP&L elects not to reserve any additional capacity on a long-term basis.

In addition to the transmission arrangements on the Duke Power and AEP systems described above, CP&L also has interconnection agreements with the TVA, Virginia Electric and Power Company ("Virginia Power"), South Carolina Electric & Gas Company ("SCE&G") and the South Carolina Public Service Authority (referred to as "Santee Cooper").

Finally, CP&L has entered into interchange agreements with other utilities in VACAR that provide for the purchase and sale of power for hourly, daily, weekly, monthly or longer periods. In addition, CP&L is currently purchasing 250 MW of generating capacity and associated energy from AEP's Rockport Unit No. 2 in southern Indiana under an agreement that runs through 2009. CP&L can schedule the power purchased [*39] under this agreement for delivery to either its Eastern or Western Area via existing transmission interconnections with AEP in both areas.

Applicants note that the feasibility of transmitting power from the Eastern to the Western Areas is demonstrated by the actual recent operations of CP&L. As noted above, CP&L transferred power from the Eastern to the Western Area via the 255 MW contract path until recently. n23

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n23 *See supra* note 17.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

We believe that the transmission arrangements available to CP&L to transfer power between the Eastern and Western Areas are adequate to establish physical interconnection of the CP&L electric system for purposes of section 2(a)(29)(A) of the Act and enable the CP&L system to coordinate its operations. The requirements of section 2(a)(29)(A) are also satisfied in every other respect.

Accordingly, we find that the CP&L electric system is an integrated public-utility system.

C. Combined Electric Operations of CP&L and Florida Power

We next examine whether the combination of the [*40] existing electric operations of CP&L with those of Florida Power would constitute an integrated public-utility system. For the reasons discussed below, we find that the four requirements of section 2(a)(29)(A) of the Act are satisfied

1. Section 2(a)(2)(A): Interconnection

Following the Merger, CP&L and Florida Power will be interconnected via the 50 MW Contract Path, which will extend about 350 miles from the Southern Interface to the interface between Duke Power and the CP&L Eastern Area. The Contract Path will utilize a portion of the transfer capability of the Southern and Duke Power systems to enable 50 MW of electricity to be transferred on a firm basis from Florida Power to the CP&L Eastern Area. n24

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n24 The Contract Path is comprised of multiple transmission lines (tielines) connecting the transmission facilities. In *Energy East Corp.*, *supra* note 19, we determined that the interconnection requirement was satisfied on the basis of a 50 MW firm transmission path that would allow New York State Electric & Gas Corp. and Central Maine Power to transfer electric energy over six of the eight transmission lines that comprise the interties between the two power pools in which those utilities operate.

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[*41]

To reserve the Contract Path, CP&L has reserved firm transmission service on the Southern and Duke Power transmission systems from south to north for an initial one-year period, commencing January 1, 2001. CP&L has the right to extend the reservation for additional one-year terms. CP&L Energy commits to exercise its right to extend the term of the Contract Path for a period of at least two additional one-year terms, unless, at the time of such renewal, it is no longer necessary to extend the term in order to satisfy the physical interconnection requirement under the Act.

Applicants expect to use the Contract Path to serve native load within CP&L's service territory by providing energy from Florida Power when it is economical to do so, as well as to market capacity and energy of Florida Power to third parties. Applicants state that the Contract Path may also provide a source of reserve capacity for CP&L. The Contract Path, coupled with the availability of significant non-firm transmission capacity between the two companies, as described below, will enable Applicants to substitute more economic power from generation resources located in one control area for generation resources in another [*42] control area when the substitute generation resources are less expensive to run.

Applicants state that the capacity of the Contract Path is relatively modest in part because opportunities for power exchanges between CP&L and Florida Power will likely be limited in the near term. Each utility is currently obligated to provide service to its respective native load customers, including its full requirements wholesale customers. The amount of generating capacity available to each utility after serving its native load is relatively small, particularly during peak load conditions on its system. Consequently, it is expected that energy exchanges between CP&L and Florida Power will tend to occur initially over periods of relatively short duration, *e.g.*, a few hours or days at a time. Applicants state that, for such short-term and intermittent exchanges, a purchase of a larger block of firm, year-round transmission service would be uneconomical and, in fact, would run counter to FERC's vision of the short-term wholesale market under Order No. 888. n25 Applicants have concluded that the Contract Path, which will provide 50 MW of firm transmission capacity at all times, is adequate in the [*43] near term to support anticipated levels of energy flows from Florida Power to CP&L.

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n25 Large long-term reservations of firm transmission could constrain parts of the grid, to the detriment of other potential transmission users. As discussed above, under Order 888, *supra* note 20, transmission users no longer need to build their own transmission lines or lease them from third parties in order to secure reliable transmission capacity. Indeed, the primary purpose and effect of Order No. 888 is to give transmission users rights of access to third party facilities that are on a par with the rights of the transmission owners. Consequently, transmission users do not need to buy more transmission than they need to support specific transactions.

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At times when the utilities want to exchange more than 50 MW for economy reasons, they will rely on transmission service generally available from intervening utilities on an as-needed basis. Applicants state that there are numerous transmission paths over which electricity can be [*44] moved from Florida Power to CP&L. Power can be exported from Florida through the transmission system of Southern, the Municipal Electric Authority of Georgia ("MEAG") or the Georgia Transmission Company ("GTC"). From any one of these three systems, the power can be transmitted to CP&L through the transmission systems of Duke Power, SCE&G or Santee Cooper. n26

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n26 An additional transmission path is available through Southern and TVA into CP&L's Western Area.

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Applicants state that the total transmission capacity of these paths is significant. For example, the OASIS postings of the relevant transmission providers as of February 24, 2000 suggest that relatively large amounts of monthly non-firm transmission will be available over the next 12 months, which could be used by CP&L and Florida Power to transmit power in a northerly direction. n27 Applicants state that the amount of transmission capacity as derived from OASIS in all examined months (other than June, July and August of 2000, when only 263 MW was available) is [*45] significant, ranging from at least 1,286 MW to 1,921 MW. More importantly, the OASIS postings indicate that a significant amount of transmission is available over an entire 12-month period, which suggests that CP&L and Florida Power will be able to obtain additional non-firm transmission capacity under the OATTs of the intervening utilities on an as-needed basis, as contemplated by Order No. 888.

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n27 Because of the limitations on OASIS postings, information concerning the availability of short-term service for 2001 and beyond is not available.

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The foregoing indicates that non-firm transmission capacity will be available (*i.e.*, remaining) for the next 12 months, even after consideration of the confirmed reservations by CP&L and Florida Power and other parties. Applicants emphasize that, although there can be no assurance that capacity posted as available today will be fully available at all times in the future, additional long-term transmission capacity (over and above the 50 MW Contract Path) is currently available [*46] for 2001, and presumably later years, across several of the intervening transmission providers. This available capacity could allow for additional power deliveries by Florida Power to CP&L of several hundred MW. Moreover, the relatively large amount of capacity posted as available on a short-term basis over the next 12-month period suggests that transmission service to interconnect CP&L and Florida Power in a south-to-north direction will be available most of the time during 2001 and later years, even if the Applicants elect not to reserve any additional capacity on a long-term basis.

Applicants state that they also considered obtaining a north-to-south transmission path into Florida from the CP&L system. However, the import capability into Florida over the Southern Interface is currently fully subscribed on a firm basis. Applicants do not think it necessary in any event to reserve additional firm transmission capacity into Florida solely to facilitate energy transfers by CP&L to Florida Power. Applicants note that, as previously indicated, Florida Power already holds 438 MW of transfer capacity into Florida as its allocated share under the Interface Agreement. Although Florida Power [*47] is currently using substantially all of that allocated capacity to support its purchases under the Southern UPS Agreement, Florida Power will have the right to use its allocated share of transfer capacity to purchase power from other sources outside Florida, including CP&L, when the Southern UPS Agreement terminates.

In addition, while the 3,600 MW total transfer capacity on the Southern Interface is fully subscribed on a firm basis, the actual net flows in the southbound direction exceed 3,000 MW in only 7.7% of the hours and exceed 2000 MW in only 41.4% of the hours, based on available data. In other words, southbound flows across the Interface are less than 2000 MW almost 58% of the time. Thus, even without the ability to reserve a firm north-to-south contract path from CP&L to Florida Power, it appears that the utilities will be able to obtain non-firm transmission capacity when and as needed during most hours.

We find that the proposed 50 MW Contract Path, together with Applicants' reliance upon the intervening transmission providers, are adequate to satisfy the physical interconnection requirement of section 2(a)(29)(A) of the Act.

2. Section 2(a)(29)(A): "Economic and Coordinated [*48] Operation"

Applicants do not intend to engage in joint economic dispatch of the combined CP&L and Florida Power facilities in a manner similar to registered systems that effectively operate as tight power pools. Rather, they intend to coordinate power supply through FERC-approved "umbrella" agreements, similar to those created to effectuate the recent mergers of AEP and Central and South West Corporation, and New Century Energies, Inc. and Northern States Power Company. n28

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n28 *See 2000 AEP Order* and *2000 NCE Order*, respectively, *supra* note 21.

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Under a system integration agreement ("Integration Agreement"), CP&L and Florida Power will coordinate the planning, operation and maintenance of generating capacity resources and the dispatch of electricity throughout the combined system. The Integration Agreement provides for coordinated dispatch. Under this arrangement, system dispatchers will arrange for economy energy sales where such sales will lower the operating costs of the purchasing company. n29 The Integration [*49] Agreement also provides for short-term capacity and associated energy sales, subject to the same limitations.

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n29 To allay any concerns of the state commissions and the FERC, sales will not be made if the purchaser has a better purchase opportunity, or the seller has a better sales opportunity.

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In addition, the Integration Agreement also provides for joint generation planning and the common procurement of resources. n30 The Integration Agreement vests in CP&L, as agent, the responsibility to arrange joint sales and purchases of electricity, as described below, and provides for the allocation of associated costs and revenues.

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n30 Again, the agreement addresses potential state concerns by making explicit that any resource additions will comply with applicable state procurement requirements.

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Applicants state that CP&L and Florida Power will also coordinate [*50] through joint marketing and trading of electricity in wholesale markets, both as a buyer and seller. System dispatchers will continually monitor the generation needs and capacity of the CP&L Energy Electric System. CP&L and Florida Power already have the ability to reach common suppliers, purchasers and trading hubs, in various combinations. There will thus be opportunities for CP&L and Florida Power to operate their generation assets in a coordinated fashion by buying and selling power in the wholesale market to decrease the overall production costs of the two utilities.

The diversity of weather, generator outages, fuel supply and localized economic conditions will create opportunities to allocate resources more efficiently. This result can be accomplished without the need to move power from one utility to the other on a regular or sustained basis. For example, Florida Power's 400 MW of capacity and associated energy under the Southern UPS Agreement could be used from time to time to support CP&L's long-term firm sales of power to MEAG (up to 160 MW), Santee Cooper (200 MW of peaking capacity after 2001) or the North Carolina Electric Membership Corporation (800 of peaking capacity, [*51] 450 MW of which is located in Duke Power's control area).

Similarly, CP&L's wholly owned subsidiary, Monroe Power Company, which owns and operates a 160 MW simply-cycle in central Georgia and is planning to add an additional 160 MW unit in 2001, could, subject to the availability of transmission, support Florida Power's wholesale sales. Further, the combined resources of CP&L and Florida Power can be used to make opportunity sales in common trading hubs, such as the Entergy Corporation and TVA markets.

In order to take advantage of the opportunities presented by coordinated operation, CP&L will run a system dispatch model of the utilities' combined resources on a day-ahead basis. The model will identify opportunities for CP&L and Florida Power to exchange power on an economy basis and to make short-term off-system sales.

The operating histories of CP&L and Florida Power demonstrate that each utility has power to supply to the other from time to time. Both have the generating capability to export bulk power at various times and at certain times, both need to import power to meet their native load requirements. More important, the systems' relative periods of surplus and deficit are [*52] different. For example, during April, May and October, which are relatively mild months in the Carolinas, CP&L had significantly more sales than purchases; whereas, during that period, Florida Power had little excess or a deficit of power supply, resulting in relatively high purchases. Conversely, during the peak winter months of January, February and December, CP&L had a greater need for purchased power, while Florida Power was in an excess power position. One goal of coordinating these operations on a day-ahead basis (as well as coordinating marketing efforts and planning) will be to maximize the use of excess power.

The operations of CP&L and Florida Power and their respective affiliates will be coordinated in various other ways. Among other things, CP&L Service will provide virtually all management, administrative and corporate support services to its associate companies. All accounting functions will be consolidated into a single system, managed by a single team.

3. Section 2(a)(29)(A): Single Area or Region; No Impairment

The retail service area of the CP&L Energy Electric System will be confined to three states, North Carolina, South Carolina and Florida, in the Southeastern [*53] United States. Further, while neither CP&L nor Florida Power has any retail customer base in Georgia, both make wholesales to Georgia customers; and CP&L, through a subsidiary, has already constructed and is planning future construction of generating assets located in Georgia. Similarly, Florida Power controls approximately 400 MW of generating capacity located in Georgia and Alabama under the Southern UPS Agreement. Moreover, Georgia Power jointly owns with Florida Power a 150 MW combustion turbine unit located at Intercession City in Osceola County, Florida. Georgia Power uses a portion of the output from this unit to serve loads in Georgia.

As discussed above, the CP&L electric system will be interconnected and susceptible of economic and coordinated operation. Further, we do not find that any adverse finding on anticompetitive grounds is necessary under section 10(b)(1) of the Act. The FERC fully considered the competitive impact of the Merger under section 203 of the Federal Power Act and approved the transaction. Specifically, the FERC considered the effects of combining CP&L's and Florida Power's generation (horizontal market power), the effects of combining generation and [*54] transmission (one aspect of vertical market power), and the effects of combining electric and natural gas assets. The FERC determined that the Merger "will not adversely affect competition as a result of combining generation" and "will not enhance the Applicants' ability to adverse affect prices or output in electricity markets through the use of generation and transmission." n31 Finally, the FERC concluded that, because of NCNG's small size, the Merger "will not adversely affect competition as a result of combining control over delivered gas and electricity facilities." n32 In addition, Applicants made the requisite HSR filings with the FTC and the DOJ and were notified of the early termination of the waiting period. We have found, and the courts have agreed, that we may watchfully defer to the findings of other regulators in concluding that no adverse finding is required under section 10(b)(1) of the Act. n33

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n31 *FERC Order, supra* note 10 at 10, 13. In order to address possible concerns about the effects of the Merger on competition, Applicants voluntarily committed to divest 135 MW of generation resources (85 MW by CP&L and 50 MW by Florida Power) for a six-year period. The FERC also found that CP&L's and Florida Power's respective commitments to file for approval to join regional transmission organizations by October 16, 2000, addressed any potential vertical market power issues associated with ownership of electric transmission and generation. *Id.* [*55]

n32 *Id.* at 14.

n33 *See, e.g., National Grid Group plc*, Holding Co. Act Release No. 27154 (Mar. 15, 2000), *citing Madison Gas and Electric Co. v. SEC, 168 F.2d 1337, 1341-42 (D.C. Cir. 1999)* (citations omitted).

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The record in this matter supports a finding that the size of the CP&L Energy Electric System will not impair efficient operation, localized management or effective regulation, and that the Merger will result in economies and efficiencies under section 10(c)(2) of the Act. As discussed below, Applicants estimate the nominal dollar value of synergies from the Merger to be approximately $ 1 billion (net of costs to achieve) over ten years. CP&L and Florida Power will continue to be managed on a day-to-day basis at a local level, particularly in areas that must be responsive to local needs. The Florida Commission will continue to regulate Florida Power and the North and South Carolina Commissions will continue to regulate CP&L, as before. n34 At the federal level, CP&L Energy will be regulated as a registered holding company. Its electric utility subsidiaries [*56] will continue to be regulated by the FERC with respect to interstate electric sales for resale and transmission services, by the NRC with respect to the operation of nuclear facilities, and by the FCC with respect to certain communications matters.

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n34 In a letter dated August 29, 2000, the Chair of the South Carolina Commission assured the Commission that it will have "adequate authority and resources to protect ratepayers served by CP&L, including, in particular, matters such as rates and financial integrity."

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For the reasons discussed above, we find that the CP&L Energy Electric System will be an integrated public-utility system within the meaning of section 2(a)(29)(A) of the Act.

D. Section 10(c)(2): Economies and Efficiencies

Applicants estimate the nominal dollar value of synergies from the Merger to be at least $ 1 billion (net of costs to achieve) over ten years. Specifically, Applicants state that these quantified benefits and savings will be achieved by reducing redundant staff, integrating corporate [*57] and administrative programs (which will result in reducing certain labor costs), reducing future information systems operational expenditures, centralizing and integrating purchasing functions, and implementing best practice initiatives. In addition, Applicants state that other benefits that are more difficult to quantify will be achieved through the Merger. Applicants state that, after the Merger, CP&L Energy will be better able to meet the challenges of the increasingly competitive environment in the utility industry. The Merger will create the opportunity for more stable rates over the long term and will afford the combined company improved access to capital markets and financial flexibility. Applicants also state that the larger and more diverse service territory of CP&L Energy will mitigate the risk of changes in economic, competitive and climatic conditions in any given sector.

E. Ownership of the Gas Operations of NCNG

We turn next to the question of whether ownership of the CP&L Energy Gas System (*i.e.*, the NCNG gas operations), which is an integrated gas system within the meaning of section 2(a)(29)(B) of the Act, satisfies the requirements of the ABC clauses of section [*58] 11(b)(1) of the Act. As explained above, those clauses require a showing that a proposed additional system of a registered holding company (A) "cannot be operated as an independent system without the loss of substantial economies which can be secured by the retention of control" by the registered holding company, (B) is "located in one State, or in adjoining States, ...," and (C) is not, when considered together with other systems owned by the registered holding company, "so large...as to impair the advantages of localized management, efficient operation, or the effectiveness of regulation."

We address first the requirements of clauses B and C. NCNG is located and operates exclusively in North Carolina, a state in which CP&L operates. Accordingly, the requirement of clause B is satisfied. We have previously determined that the CP&L Energy Electric System would not be "so large as to impair the advantages of localized management, efficient operation or effectiveness of regulation." We do not believe that the ownership of the two systems by CP&L Energy requires a different conclusion. n35 In view of the proposed management system, the economies and efficiencies anticipated from the [*59] affiliation of the two systems, discussed above, and the effectiveness of regulation by the states, we find that clause C is satisfied.

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n35 Based on data through September 30, 1999 (*pro forma* to include the results of operations of NCNG for 12 months), and giving effect to the Merger, NCNG's gas operations will represent only 2.4% of net utility plant of CP&L Energy; operating revenues for the natural gas operations will represent only 3.1% of total utility revenues; and natural gas customers will constitute only 4.2% of all utility customers, while electric operations will represent 95.8%.

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To meet their burden under clause A, Applicants prepared and submitted a study concerning the gas operations ("Additional System Study"). n36 The analysis focuses upon the increases in operating costs that would result from divestment. As set forth in the Additional System Study, annual operating costs will increase by approximately $ 12.5 million. These increased costs would result primarily from additional capital costs and [*60] annual operating and maintenance costs in several categories, including one-time transition costs associated with establishing NCNG as a separate company.

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n36 The Additional System Study is attached to the Application as Exhibit K-1.

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As explained most recently in the *1997 NCE Order*, registered holding companies have often submitted studies purporting to demonstrate that if an additional utility system were divested, there would be substantial increases in operating costs. In assessing an estimated loss of economies, we have considered the size of the estimated loss in relation to the separate system's total revenues, expenses and income. n37 Specifically, we have examined the estimated loss of economies, expressed in terms of the ratio of increased expenses to the system's total operating revenues, operating revenue deductions (excluding federal income taxes), gross income and net income before federal income taxes. n38

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n37 *See 1997 NCE Order supra* note 13 at n.52, citing *New England Electric System, 41 S.E.C., 888, 898-99 (1964), rev'd, SEC v. New England Electric System, 346 F.2d 399 (1st Cir. 1966), rev'd and remanded, 384 U.S. 176 (1965) ("NEES I"), on remand, 376 F.2d 107 (1st Cir. 1967), rev'd, 390 U.S. 207 (1968)* ("*NEES II*"). In *NEES I*, the U.S. Supreme Court approved the Commission's use of such ratios. *384 U.S. at 213-14*. The Commission compared the ratios thus obtained to those it had found in previous cases not to prove a substantial loss of economies within the meaning of clause A. In *NEES II*, the Supreme Court accepted the Commission's use of such ratios in previous cases. *390 U.S. at 216.* [*61]

n38 *See 1997 NCE Order, supra* note 13 at n.52 and related text.

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In this matter, the projected $ 12.5 million increase in annual costs represents, on a percentage basis, a 5.65% loss of gas operating revenues, a 6.17% increase in gas operating revenue deductions, a 66.90% loss of gross gas income, and a 308.34% loss of net gas income. In addition, the Additional System Study indicates that divestment would result in $ 17.4 million in one-time costs.

These ratios depart in some respects, though not significantly, from the historical guidelines established in *Engineers Public Service Co.* n39 We believe that we could find clause A to be satisfied on this basis.

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n39 In *Engineers Public Service Co.*, the Commission suggested that cost increases from divestment of a gas system resulting in a 6.78% loss of operating revenues, a 9.72% increase in operating revenue deductions, a 25.44% loss of gross income and a 42.46% loss of net income would afford an "impressive basis for finding a loss of substantial economies." *Engineers Public Service Co., 12 S.E.C. 41, 59 (1942), rev'd on other grounds and remanded, 138 F.2d 936 (D.C. Cir. 1943), vacated as moot, 332 U.S. 788 (1947).*

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[*62]

We have suggested in previous decisions, however, beginning with the *1997 NCE Order*, that the historical ratios do not provide an adequate indication of the substantial loss of economies that may occur if an additional utility system must be divested. n40 Our use of the historical ratios reflects the assumptions that underlie our earlier precedent interpreting clause A. We stated in the *NCE Order* that this precedent rests on an outdated assumption that a combination of electric operations is typically disadvantageous to the gas operations, and the assumption, conversely, that the public interest and the interests of investors and consumers (the protected interests under the Act) are promoted by a separation of gas and electric operations. n41 In our earlier precedent, for example, we sometimes concluded that an estimated loss of economies, while significant, was insufficient to satisfy clause A because the competitive benefits that could be anticipated from divestment would offset the increase in rates to customers of the divested utility. n42

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n40 We think it appropriate to analyze the ownership of an additional system under clause A in the light of all of the facts and circumstances of a particular matter, and, in particular, the considerations discussed below. In future matters, we will not require a comparison of loss ratios to those of earlier precedent. We emphasize, however, that applicants retain the burden to demonstrate affirmatively that divestment of an additional system would result in a loss of substantial economies within the meaning of clause A. [*63]

n41 *1997 NCE Order, supra* note 13. We took administrative notice of the rapid erosion of the empirical basis for these assumptions, due to increasing competition in the gas and electric industry.

n42 In *New England Electric System*, we considered an estimated loss of economies equal to 4.83% of the gas system's operating revenues, 6.03% of operating revenue deductions (excluding federal income taxes), 23.28% of gross income and 29.94% of net income before federal income taxes. We found that, "These ratios are lower or not significantly higher than corresponding ratios of gas systems whose divestment we have required on the ground that the estimated loss of economies was not substantial within the meaning of clause A." *New England Electric System, supra* note 37 at 897-98. We rejected arguments, among others, that an increase in operating costs would have an exceptionally adverse impact on the gas system because of the highly competitive position of gas in relation to fuel oil in the area; that an increase in the cost of gas operations as a result of severance would force an increase in gas rates to customers that would impair the slight competitive advantage held by gas; and that there would be no advantage arising from separation of the management of the gas system from the primary electric system because the benefits that flow from centralized and separation operation of the gas business had already been achieved. *Id.* at 898-900.

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[*64]

Although some recent combinations of gas and electric operations have readily satisfied the historical guidelines, we have emphasized in recent matters, beginning with the *1997 NCE Order*, that in today's gas and electric industries, increased expenses of separate operation may be compounded by a loss of competitive benefits that would flow from the ownership of combined gas and electric properties. n43 The Court of Appeals for the District of Columbia Circuit has sustained our reappraisal of our earlier assumptions. n44

- -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n43 *See, e.g., 1997 NCE Order, supra* note 13; *SCANA Corp.*, Holding Co. Act Release No. 27133 (Feb. 9, 2000); *Northeast Utilities*, Holding Co. Act Release No. 27127 (Jan. 31, 2000); and *NiSource Inc., supra* note 39.

As examples of matters in which the historical guidelines were satisfied, *see 1997 NCE Order; supra* note 13; *Ameren Corp.*, Holding Co. Act Release No.26809 (Dec. 30, 1997); and *WPL Holdings, Inc.*, Holding Co. Act Release No. 26856 (Apr. 14, 1998), *aff'd, Madison Gas and Electric Co. v. SEC, supra* note 33.

n44 *See Madison Gas and Electric Co. v. SEC, supra* note 33 at 1344 n.9.

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[*65]

Thus, we have determined that a combined company's competitive position in the market would suffer if it were unable to own combined electric and gas operations because, as the utility industry moves toward a complete energy services business, energy suppliers must be able to offer customers a total range of energy options to meet their energy needs. Our orders have thus recognized that significant economies and competitive advantages inhere in the ownership of both gas and electric operations. n45 We have further noted that revenue enhancement opportunities and other benefits expected to result over time from proposed "convergence" mergers would be diminished or lost if an additional system had to be divested. n46

- -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n45 *See, e.g., Exelon Corp., supra* note 19, citing *WPL Holdings, Inc.*, Holding Co. Act Release No. 26856 (Apr. 14, 1998), *aff'd, Madison Gas and Electric Co. v. SEC, supra* note 33; *TUC Holding Co.*, Holding Co. Act Release No. 26749 (Aug. 1, 1997); and *1997 NCE Order, supra* note 13.

n46 *See SCANA Corp., supra* note 43.

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[*66]

In this matter, Applicants state that certain non-quantifiable economies would be lost if divestment were required. For example, the access to greater financial and other resources that NCNG would have as a subsidiary of CP&L Energy would no longer be available. At the same time, CP&L's competitive position would suffer. Applicants state that the acquisition of NCNG gave CP&L an opportunity to evolve into a total energy services provider and achieve the other strategic goals it sought to obtain through the acquisition. Applicants note, among other things, that the North Carolina Commission, in approving the combination of CP&L and NCNG, found that it would help to ensure an adequate, reliable and cost-effective supply of natural gas for CP&L's gas-fired electric generating assets; promote the expansion of intrastate natural gas transmission lines in North Carolina (in that the overall economies of expansion plans would improve when CP&L's need for gas as a fuel combines with NCNG's need for gas transportation); and make it more likely that natural gas service would be extended into unserved parts of the state as and when CP&L gas-fired units become the "anchor tenant" that provides [*67] the economic justification for expansion of gas service into the nearby local communities. n47

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n47 *Re: Carolina Power & Light Co., et al., 194 P.U.R. 4th 258, 262-64* (July 13, 1999).

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We have also noted previously that, to the extent that competition between sources of energy remains a concern, section 10(b)(1) of the Act requires us to consider the potential anticompetitive effects of an acquisition. n48 In addition, the FERC and the DOJ typically have concomitant jurisdiction over merger transactions and consider potential anticompetitive consequences. n49 In several recent matters, the FERC examined the vertical aspects of the Merger (associated with combining delivered gas and electric assets) and found that they did not raise competitive concerns. n50 In addition, mergers are typically subject to the notification and report procedures under the HSR Act. In this matter, as previously discussed, the FERC fully considered the competitive impact of the Merger and determined, with respect [*68] to NCNG that, as a result of its small size, the Merger "will not adversely affect competition as a result of combining control over delivered gas and electricity facilities." n51 The DOJ also notified Applicants on July 12, 2000 of the early termination of the applicable waiting period under the HSR Act.

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n48 *See, e.g., 1997 NCE Order, supra* note 13; and *NiSource, Inc., supra* note 39.

n49 *See id.*

n50 *See, e.g., NiSource, Inc., supra* note 39.

n51 *See FERC Order, supra* note 10 at 14.

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Finally, we have taken account of a historical association of gas and electric operations and the views of the interested state commissions. n52 In this matter, unlike several previous matters, the gas and electric operations of CP&L Energy have not been under common control for any extended period of time. As in previous matters, however, the continued ownership of these properties by CP&L Energy will not alter the *status quo* with respect to the utility operations. Further, as discussed above, the North [*69] Carolina Commission has endorsed CP&L Energy's ownership of NCNG. In light of the increased expenses and the potential loss of competitive advantages that could result from separation from CP&L Energy and the other factors noted above, we find that the requirements of clause A are satisfied with respect to the gas operations of

NCNG. Accordingly, CP&L Energy may retain the gas operations as an additional system.

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n52 *See 1997 NCE Order, supra* note 13. *Accord: NiSource, Inc., supra* note 39.

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F. Ownership of Nonutility Subsidiaries

Section 11(b)(1) of the Act, referenced in section 10(c)(1), limits the nonutility interests of a registered holding company to those that are "reasonably incidental, or economically necessary or appropriate to the operations of" the integrated system, based on a Commission finding that the nonutility businesses are "necessary or appropriate in the public interest or for the protection of investors or consumers and not detrimental to the proper function of" the registered system. [*70] The Commission has interpreted section 11(b)(1) to require the existence of a functional relationship between the utility business of the registered holding company and its nonutility activities. n53

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n53 *See generally Michigan Consolidated Gas Co. v. SEC, 444 F.2d 913 (D.C. Cir. 1971)*.

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CP&L Energy and Florida Progress are engaged through subsidiaries in various nonutility activities. Many of these businesses are retainable under our rules and/or prior cases. A description of each of these nonutility activities and indication of the legal basis for retention are provided in Appendix A to this order.

Applicants request that we exclude nonutility investments made by CP&L Energy and Florida Progress prior to the effective date of the Share Exchange, for purposes of calculating the 15% investment limitation of rule 58. It is appropriate to grant this request in view of the fact that, at the time of the investments, the Merger partners were not subject to the restrictions that section 11(b)(1) [*71] of the Act and relevant precedent place upon the nonutility investments of registered system companies. n54

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n54 *See, e.g., 1997 NCE Order, supra* note 13; and *SCANA Corp., supra* note 43.

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Applicants commit to divest certain nonutility interests and request that we reserve jurisdiction over CP&L Energy's ownership of certain other nonutility businesses pending completion of the record.

Specifically, Applicants acknowledge that Florida Progress' interest in Mid-Continent, a life insurance subsidiary company, is not retainable under the standards of section 11(b)(1) of the Act. Applicants commit to divest this interest upon court approval of a rehabilitation for Mid-Continent and settlement of litigation against Florida Progress. n55 Applicants state that any divestment of Mid-Continent will comply with all applicable state laws. We find that the disposition of Mid-Continent is necessary and appropriate to integrate and simplify the holding company system of which CP&L Energy is a member and to effectuate the provisions [*72] of section 11(b)(1) of the Act.

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n55 Under a plan of rehabilitation filed in May 2000 and recommended by the Oklahoma insurance commissioner as the receiver, American Fidelity Assurance Company ("American Fidelity") would acquire Mid-Continent's policies. On September 26, 2000, the Oklahoma County District Court approved the acquisition of Mid-Continent's policies by American Fidelity. At the same time, Florida Progress entered into a settlement that would resolve all current policyholder litigation against Florida Progress. A proposed agreement would also settle litigation against Florida Progress that was filed in December 1997 by the receiver. Under the terms of the agreement, Florida Progress would make certain payments totaling $ 17.5 million that would be held in a fund and used to offset future increases in policy premiums. In addition, Florida Progress would contribute the common stock of Mid-Continent to the receiver. The rehabilitation plan and the settlement agreements are subject to approval by the Oklahoma County District Court. The court has scheduled a fairness hearing on February 21, 2001 on both the plan and the settlement agreements. If the plan and settlement agreements are approved, Florida Progress would relinquish its interest in Mid-Continent.

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[*73]

Applicants further acknowledge that Florida Progress' limited partnership interest in the Tampa Bay Devil Rays, Ltd. ("Devil Rays"), the owner of a Major League Baseball franchise, is not retainable under the standards of section 11(b)(1) of the Act. Florida Progress holds a 5.8% interest in the Devil Rays as a class B limited partner. Under the terms of the partnership agreement, the transfer of a limited partner's interest to a third party is subject to various limitations and restrictions. The agreement obligates the partnership to repurchase each class B limited partner's interest in cash on the eighth anniversary of the date on which the team commenced play, which will occur in March 2006, unless such class B limited partner exercises its right to convert its interest to that of a class A limited partner. Florida Progress will endeavor to sell its interest in the Devil Rays following the Share Exchange but, in any event, commits to sell its interest in the Devil Rays back to the partnership in accordance with the provisions of the partnership agreement. Florida Progress will not exercise its right to convert its class B limited partnership interest to that of a class A limited [*74] partner. We find that the disposition of the interest in the Devil Rays is necessary and appropriate to integrate and simplify the holding company system of which CP&L Energy is a member and to effectuate the provisions of section 11(b)(1) of the Act.

Our order will further require that all of the net proceeds from the disposition of the interest (for this purpose, a party selling the interest pursuant to the order shall be referred to as a "Transferor") must be contributed to the capital of Progress Capital by the Transferor within ninety days of receipt of cash in connection with such sale. We find that such capital contribution is necessary and appropriate to integrate and simplify the holding company system of which CP&L Energy is a member and to effectuate the provisions of section 11(b)(1) of the Act.

CP&L, directly and through subsidiaries, holds interests in a total of 53 entities that own or develop affordable housing projects that qualify for affordable housing credits under the provisions of the Low Income Housing Tax Credit Program under Section 42 of the Internal Revenue Code of 1986, as amended (the "Code") and in historic building renovation properties that qualify [*75] for historic building rehabilitation credits under Section 47 of the Code. Five of these investments are in syndicated national funds. n56 The remaining 48 are direct investments in limited partnerships or limited liability companies that own or are developing individual tax-credit properties in North and South Carolina. All but two of these (Enston Home LP and Willow Run, LLC) are located within the combined CP&L and NCNG service territory.

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n56 These investments in syndicated national affordable housing funds satisfy the criteria for retention set forth in *Exelon Corp.*, Holding Co. Act Release No. 27256 (Oct. 19, 2000), citing *WPL Holdings, Inc.*, Holding Co. Act Release No. 26856 (Apr. 14, 1998). Accordingly, CP&L Energy may retain them.

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CaroFund, a subsidiary of CP&L, is co-developing and, under the organizational documents, will act as co-manager of five of the 48 project entities: Grove Arcade Restoration LLC, HGA Development, LLC and Historic Property Management, LLC, which are involved in an historic building [*76] restoration project in Asheville, North Carolina; and Raleigh-CaroHome/WCK, LLC and Trinity Ridge, LLC, which are developing affordable housing projects in the Raleigh, North Carolina area.

Applicants request the Commission to reserve jurisdiction over Enston Home LP and Willow Run, LLC. CP&L Energy will file a post-effective amendment in this proceeding not later than November 30, 2001, in which CP&L Energy will either set forth the legal basis upon which it is entitled to retain these investments or its plan to dispose of them. In addition, CP&L Energy requests the Commission to reserve jurisdiction over its retention of the five projects in which it has an "active" investment interest (the "Specified Building Projects"). CP&L Energy undertakes to either sell the Specified Building Projects or to take steps to have the ownership interest in each entity converted into that of a passive investor prior to November 30, 2003.

Applicants further request the Commission to reserve jurisdiction over CP&L Energy's retention of various subsidiaries of Electric Fuels, the predominant nonutility subsidiary of Florida Progress. n57 Applicants acknowledge that there is an issue as to whether certain [*77] of Electric Fuels' subsidiaries qualify as energy-related companies under rule 58 or are otherwise retainable under the standards of section 11(b)(1) of the Act. Applicants have not completed the record with respect to these interests and therefore request the Commission to reserve jurisdiction over CP&L Energy's retention of the following subsidiaries of Electric Fuels (the "Specified EFC Subsidiaries").

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n57 Electric Fuels is engaged through numerous direct and indirect subsidiaries in various domestic energy businesses, including coal mining and synthetic fuel production. Electric Fuels is also engaged in extensive river and ocean barging and rail transportation operations, and in various businesses that are related to those operations, including operating bulk storage, drydocking and railcar repair facilities, and marketing and selling railcar parts, among others.

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Dixie Fuels Limited, a Texas partnership, was formed to operate an ocean-going barge system for the transportation of coal from the New Orleans area [*78] to Florida Power's Crystal River plant and other bulk commodities: Dixie Fuels also backhauls limestone from a quarry at Crystal River to a cement plant near Mobile Alabama that is owned by a third party. Electric Fuels owns a 65% interest in the partnership. An unrelated company holds the remaining interest.

Dixie Fuels II, Limited is an inactive Texas partnership that formerly owned and operated one tug/barge unit used primarily for hauling bulk cargo for unaffiliated companies. The vessel has been sold and the partnership is in the process of being liquidated. Electric Fuels owns a 50% partnership interest.

Cincinnati Bulk Terminals, Inc. is a Delaware corporation that serves as a transloading and distribution point for coal and other bulk materials in the greater Cincinnati, Ohio area.

Kanawha River Terminals, Inc. is a Florida corporation that sells and terminals coal and other bulk materials in West Virginia and Kentucky. It is also an intermediate holding company with interests in synthetic fuel plant entities.

MEMCO Barge Line, Inc. ("MEMCO"), a Delaware corporation, is Electric Fuels' inland marine transportation unit. It hauls coal, petroleum coke, synthetic [*79] coal fuel, wood chips, limestone, steel products, lime, salt, fertilizer, grain and grain products and other bulk commodities. MEMCO operates primarily on the Illinois, Ohio and Mississippi rivers and the Gulf Intracoastal Canal. The following are subsidiaries of MEMCO:

Elmwood Marine Services, Inc., a Louisiana corporation, engages in the fleeting, washing and repair of barges in Louisiana and maintains a 33-1/3% ownership interest in International Marine Terminals Partnership.

Conlease, Inc., is a Louisiana corporation that owns batture leases in Louisiana. (Batture is the right to use a river bank area to fleet barges).

International Marine Terminals Partnership ("IMT") was formed to develop and operate a bulk commodities terminal facility on the Mississippi River south of New Orleans. IMT transloads coal from barges to Dixie Fuels vessels. It also stores and blends coal destined for Crystal River. IMT is the receiving point for import coal destined for Crystal River, since the Crystal River channel is too shallow to handle import ships directly. IMT's subsidiary *I.M.T. Land Corp.* owns terminal land in Louisiana that it leases to IMT.

Progress Metal Reclamation [*80] *Company*, a Kentucky corporation, has a railcar scrapping and general metal recycling facility in Kentucky. It also has an ownership interest in *West Virginia Auto Shredding*, a West Virginia corporation. *Progress Rail Services Corporation ("Progress Rail")* is an Alabama corporation that provides rail and track material, new and reconditioned car parts, car repair and car leasing services in the United States, Mexico and Canada. It has ownership interests in the following companies:

Chemetron-Railway Products, Inc. is a Delaware corporation that sells and leases rail welding and handling equipment and provides rail welding services through the United States and in Canada.

FM Industries, Inc. is a Texas corporation that manufactures railcar parts in Texas.

Kentuckiana Railcar Repair and Storage Facility, L.L.C. is an Indiana limited liability company that operates a railcar repair facility in Indiana.

PRS International Sales Company, Inc., a Virgin Islands corporation, is a foreign sales corporation agent for Progress Rail.

Progress Rail Services de Mexico, S.A. de C.V. is a Mexican company that markets, leases and sells railcars and railcar parts in Mexico. [*81]

Progress Rail Canada Corporation is a Canadian company that supplies rail and railcar parts and maintenance-of-way equipment. It also repairs and leases railcars and locomotives.

Progress Rail Holdings, Inc. is an Alabama intermediate holding company. It owns *Progress Rail Transcanada Corporation*, a Nova Scotia company that owns and operates a facility that repairs, manufactures and supplies railway equipment.

Progress Vanguard Corporation is a Delaware corporation that repairs and leases railcar and supplies new and reconditioned rail and new and reconditioned railcar parts and maintenance-of-way equipment in several states.

Railcar, Ltd. is a Georgia corporation that leases and sells railcars and manages railcar rolling stock. It has an ownership interest in *Servicios Administrativos Progress, S. de R.L. de C.V.*, a Mexican limited liability company that provides personnel and administrative services for *Servicios Ferroviarios Progress S. de R.L. de C.V.*, a Mexican holding and operating company limited liability company that performs railcar repair services in Mexico in which Railcar, Ltd. also has an ownership interest.

Southern Machine and Tool Company [*82] is a Georgia corporation that operates a design and fabrication machine shop in Georgia.

United Industries, Inc. is a Kentucky corporation that operates a railcar repair facility in Kentucky.

DAPCO Rail Services, L.L.C. is an Alabama limited liability company that engages in ultrasonic scanning, inspection and testing of railway rails.

Marigold Dock, Inc., an Alabama corporation, owns a coal loading facility in Kentucky.

The following coal mining subsidiaries of Electric Fuels: Awayland Coal Company, Inc.; Diamond May Coal Company; Diamond May Mining Company; Dulcimer Land Company; Homeland Coal Company, Inc.; Kentucky May Coal Company, Inc.; Kentucky May Mining Company; Little Black Mountain Coal Reserves, Inc.; Little Black Mountain Land Company; Murphy Land Company, Inc.; PMCC, Inc.; Powell Mountain Coal Company, Inc.; Powell Mountain, Inc.; Powell Mountain Joint Venture; and Progress Land Corporation.

CP&L holds interests ranging between 3.1% and 15.79% in eight different venture capital funds. Two of the eight funds invest in new and existing companies that are engaged in the development and commercialization of electrotechnologies related to energy conservation, [*83] storage and conversion, energy efficiency and greenhouse gas reduction; and two funds make investments in new business ventures in North and South Carolina in order to attract business and create jobs. CP&L Energy requests the Commission to reserve jurisdiction over the retention of passive investments in the remaining four funds: Carousel Capital Partners, LP, South Atlantic Private Equity Fund IV, Utility Competitive Advantage Fund, LLC and Utility Competitive Advantage Fund II, LLC (collectively, the "Specified Funds").

CP&L Energy will file a post-effective amendment in this filing not later than November 30, 2001, in which it will either set forth the legal basis upon which it is entitled to retain any or all of the Specified EFC Subsidiaries and the Specified Funds, or, alternatively, will commit to divest some or all of the Specified EFC Subsidiaries and Specified Funds. CP&L Energy requests that any order of the Commission that requires CP&L Energy to divest any of these interests pursuant to section 11(b)(1) of the Act permit CP&L Energy to take the appropriate actions to complete the disposition not later than November 30, 2003 in order to satisfy the requirements of section [*84] 1081 of the Code. This measure will enable CP&L Energy to obtain the tax treatment for any such disposition provided for in section 1081.

Several nonutility subsidiaries of CP&L Energy and Florida Progress that are listed and described in Appendix A are currently inactive. In the event that CP&L Energy seeks to reactivate any of these companies after its registration, it commits to file a post-effective amendment in which it will request authority to engage in the proposed activities, if authorization is required.

III. Request for Hearing

Mr. Edwin Dove, who identifies himself as an investor and customer of CP&L Energy in Asheville, North Carolina, filed a request for a hearing on August 21, 2000 objecting to the Merger and requesting a hearing on the Application (the "*Request*"). n58 Applicants filed a response on September 8, 2000 (the "*Response*").

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n58 Mr. Dove did not provide a telephone number or address or indicate any other means of communicating with him. Applicants describe various measures through which they have tried, without success, to identify and locate Mr. Dove. The lack of an address obviously makes it impossible for us to provide Mr. Dove with a copy of this order.

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[*85]

Mr. Dove raises various objections to the Merger. First, he asserts that: "Florida Progress appears to be a risky investment; there [sic] bond ratings are not as good as those of CP&L; maybe because FPC [Florida Power] is involved in investments that appear to have no relevance in the utility business." As examples, Mr. Dove cites a barge business on the Mississippi River, an interest in a baseball team (the Tampa Bay Devil Rays) and low-income housing. He suggests that Florida Progress' nonutility activities generally contravene the requirements of the Act.

Prior to November 20, 2000, the ratings for the long-term debt, preferred stock and commercial paper of Florida Power, Progress Capital Holdings, Inc. (the holding company for substantially all of Florida Progress' nonutility subsidiaries) and FPC Capital (a special purpose financing vehicle of Florida Power) were comparable to or higher than those of CP&L. n59

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n59 Prior to November 20, 2000, Standard & Poor's rated the securities of Florida Power as follows: senior secured debt, AA-; senior unsecured debt, A+; preferred stock A and commercial paper A-1+. These ratings were all higher than those of CP&L securities, which were rated: senior secured debt, A; senior unsecured debt, A-; preferred stock, BBB+; and commercial paper, A-1. The senior unsecured debt and commercial paper ratings of Progress Capital Holdings, Inc., which finances Florida Progress's nonutility operations, were rated A and A-1, respectively. Neither Florida Progress nor CP&L has any outstanding debt or preferred stock. *Response* at 7.

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[*86]

On November 20, 2000, Standard & Poor's lowered its ratings on securities of CP&L, Florida Power, Florida Progress and Progress Capital and removed the ratings from Credit Watch with negative implications, where they were placed on August 23, 1999. For all four companies, the new rating for senior secured debt was BBB+, for senior unsecured debt, BBB+, for preferred stock, BBB-, and for commercial paper, A-2. In addition, Standard & Poor's assigned to CP&L Energy its BBB+ long-term corporate credit rating and it's A-2 short-term corporate credit and commercial paper ratings for a new $ 3.75 billion commercial paper program. The rating actions were in anticipation of the Merger, which, as noted above, will require a substantial amount of debt financing (approximately $ 3.5 billion), initially funded through commercial paper at the CP&L Energy level. n60 As a consequence of these actions, the ratings of the securities of the merging companies are now comparable. As discussed below, we do not believe that these rating actions require any adverse finding under section 10(b)(3) of the Act.

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n60 The rating agency stated that the outlook for all entities is stable. It explained that the stable outlook reflects the expectation of quick assimilation of the Florida Power assets and the realization of projected cost synergies, and added that, "Combined with management's stated commitment to credit quality, the potential for reduced debt leverage and stronger credit protection measures is high." Dow Jones Newswires Press Release: S&P Rates CP&L Energy; Units Cut, Off Watch, http//199.97.97.79/IMDS/.

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[*87]

Applicants respond that Mr. Dove is mistaken in asserting that the bond ratings of Florida Progress are inferior to those of CP&L. Applicants state that, in fact, the current ratings for the long-term debt, preferred stock and commercial paper of Florida Power, Progress Capital Holdings, Inc. and FPC Capital are all comparable to or higher than those of CP&L. n61

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n61 Florida Power's securities are currently rated as follows by Standard & Poor's: senior secured debt "AA-"; senior unsecured debt "A+"; preferred stock "A'" and commercial paper "A-1+". These ratings are all higher than those of CP&L, which are rated by Standard & Poor's as follows: senior secured debt, A; senior unsecured debt, A-; preferred stock, BBB+; and commercial paper, A-1. The senior unsecured debt and commercial paper ratings of Progress Capital Holdings, Inc., which finances Florida Progress's nonutility operations, are rated "A" and "A-1", respectively. Neither Florida Progress nor CP&L has any outstanding debt or preferred stock. *Response* at 7.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -
[*88]

Applicants state that the risks of the proposed business combination were disclosed in the companies' combined proxy statement, and that shareholders overwhelmingly approved the Merger based on the disclosure in the proxy statement. n62 We further note that, although the Act does not require an assessment of the risks of a proposed acquisition, it does require the Commission not to approve an acquisition if we find that the consideration is "not reasonable or does not bear a fair relation to the sums invested in or the earning capacity of the utility assets" to be acquired. n63 As discussed above, Florida Progress shareholders will elect to receive either $ 54.00 in cash for each outstanding share of Florida Progress common stock or a number of shares of CP&L Energy common stock as calculated in accordance with the exchange ratio. The purchase price represents a 30% premium to Florida Progress's shareholders based on the 20-day average closing price ended August 20, 1999 of Florida Progress' stock. Under the Exchange Agreement, Florida Progress shareholders will also receive CVOs, which will entitle them to receive payments based on the net after-tax cash flow generated by the EARTHCO [*89] plants.

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n62 *Id.*, n.2.

n63 Section 10(b)(2) of the Act.

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Based upon our review, we are satisfied that the purchase price is not unfair or unreasonable or does not bear a fair relation to the earning capacity of the utility assets to be acquired within the meaning of section 10(b)(2) of the Act. The price is the result of arm's-length negotiations between CP&L Energy's predecessor and Florida Progress. Applicants state that these negotiations were preceded by months of due diligence, analysis and evaluation of the assets, liabilities and business prospects of the respective companies, which were described in detail in the Applicants' joint proxy statement seeking shareholder approval of the Merger.

Section 10(b)(2) of the Act also requires consideration of the overall fees, commissions and expenses to be incurred in connection with the Merger. Applicants estimate that they will incur a combined total of approximately $ 41.4 million in fees, commissions and expenses in connection with the Merger. These fees are [*90] consistent with, and are generally lower than, percentages previously approved by the Commission. n64

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n64 *See e.g.*, *Entergy Corp.*, Holding Co. Act Release No. 25952 (Dec. 17, 1993) at n..63 (fees and expenses of $ 38 million, representing approximately 2% of the value of the consideration paid to the shareholders of Gulf States Utilities; *Dominion Resources*, Holding Co, Act Release No. 27113 (Dec. 15, 1999) (fees and expenses totaling $ 55.5 million, representing approximately 0.87% of the estimated total consideration to be paid to shareholders of Consolidated

Natural Gas Co.); and *2000 AEP Order, supra* note 21 at n.40 (total fees, commissions and expenses of approximately $ 72.7 million, representing 1.1% of the value of the total consideration paid by AEP to the shareholders of Central and South West Corporation).

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Further, the Act further directs us not to approve an acquisition that "will unduly complicate the capital structure of the holding-company system of the applicant or will be detrimental to the [*91] public interest or the interest of investors or consumers or the proper functioning of [the] holding-company system." n65 We make no negative findings under these provisions. The record indicates that, as of June 30, 2000, the *pro forma* consolidated capital structure of CP&L Energy after the Merger would be 34% common equity, above the 30% common equity ration that we have generally viewed as adequate for registered holding companies. n66 This ratio includes the acquisition financing. The record further indicates that within two years of the Merger, the *pro forma* consolidated capital structure of CP&L Energy would be 39% common equity. These financial projections suggest that the recent downgrades of the merging companies' securities are likely to be temporary.

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n65 Section 10(b)(3) of the Act.

n66 *See, e.g., Entergy Corp., supra* note 62, citing *Northeast Utilities*, Holding Co. Act Release No. 25221 (Dec. 21, 1990), n.47, *supplemented*, Holding Co. Act Release No. 25273 (Mar. 15, 1991), *aff'd sub nom. City of Holyoke v. SEC, 972 F.2d 358 (D.C. Cir. 1992)*.

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[*92]

In addition, the record in this matter offers no basis for a finding that the Merger would be detrimental to the public interest, the interests of investors or consumers, or the proper functioning of the holding company system. The shareholders of the combining companies approved the Merger. As discussed above, we do not find that any adverse finding on anticompetitive grounds is necessary under section 10(b)(2) of the Act. Further, the Merger is expected to result in economies and efficiencies, as required by section 10(c)(2) of the Act. As discussed previously, Applicants estimate the nominal dollar value of synergies from the Merger to be at least $ 1 billion (net of costs to achieve) over ten years. The transaction will have no adverse effect on the rights of holders of the outstanding stock and debt securities of CP&L Energy. In view of these considerations, we do not find that the Merger would be detrimental to the protected interests or the proper functioning of CP&L Energy. We reject Mr. Dove's assertion that the Merger should be disapproved because it will produce "nothing but big paydays for management."

With respect to Mr. Dove's suggestion that the nonutility businesses [*93] of Florida Progress contravene the requirements of the Act, our order requires CP&L Energy to divest its interests in Mid-Continent and the Tampa Bay Devil Rays, Ltd. Other nonutility interests not approved by this order will be subject to further scrutiny when CP&L files a post-effective amendment in this filing, as required by the order.

Mr. Dove further objects that the 50 MW Contract Path is inadequate, particularly in view of the 250 MW contract path in the *2000 AEP Order*. In this regard, he cites a statement in footnote 10 of the notice published in the *Federal Register* to the effect that power exchanges between the two utilities will be "small, infrequent and intermittent." Mr. Dove concludes that the Commission is "allowing two big companies to come together under the guise that they will be interconnected -- but in reality they won't be really interconnected." n67

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n67 *Request* at 1.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

It appears, on the contrary, that the Contract Path is a reasonable and cost-effective means of interconnecting the [*94] CP&L and Florida Power systems that will contribute to the coordination of the combined system. Applicants state that "opportunities for power exchanges between CP&L and Florida Power will likely be limited in the near term" and that "energy exchanges between CP&L and Florida Power will tend to occur initially over periods of relatively short duration, *e.g.*, a few hours or days at a time." Applicants have concluded that the Contract Path is adequate in the near term to support anticipated levels of energy flows from Florida Power to CP&L. n68 For intermittent transactions, the companies will rely on transmission service generally available from intervening utilities on an as-needed basis. It appears that a significant amount of south-to-north, non-firm transmission capacity will be available. It further appears that even without the ability to reserve a firm north-to-south contract path from CP&L to Florida Power, the companies will be able to obtain non-firm transmission capacity when and as needed during most hours. In the *2000 AEP Order* and the *2000 NCE Order*, we considered the availability of shorter-term non-firm transmission service in conjunction with an annual [*95] firm contract path in determining whether the interconnection requirement was met. n69 On the basis of all the facts and circumstances in this matter, we find that the statutory interconnection requirement is satisfied.

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n68 Applicants correctly state that we have not established any minimum size requirement for a contract path. *Response* at 9, n.4. *See, e.g., Energy East Corp., supra* note 16.

n69 *See supra* note 21.

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In the context of interconnection, Mr. Dove asks if the Commission is "recreating what the SEC broke up in the 1930s and 1940s." We note that the Act was not intended to preclude a holding company from expanding its utility system by acquisition or otherwise. Indeed, the Act expressly permits a holding company that meets the standards of the Act to function and develop as a regional system. n70 We have found that the proposed Merger and related transactions satisfy the statutory requirements.

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n70 *See The Regulation of Public-Utility Holding Companies*, Division of Investment Management, SEC (June 1995) at 56, citing S. Rep. 621, 74th Cong., 1st Sess. (1935) (Report of Sen. Wheeler from the Committee on Interstate Commerce at 30; H.R. Rep. No. 1318, 74th Cong., 1st Sess. (1935) at 15.

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[*96]

It is well settled that an evidentiary hearing is required only when an intervenor establishes that a genuine issue of material fact exists. n71 The proponent of a hearing must make a minimal showing that material facts are in dispute; bald and conclusory allegations that such a dispute exists are not sufficient. n72 In this case, Mr. Dove has not identified any material fact that is in dispute. We therefore conclude that he has failed to make the necessary showing and that no evidentiary hearing is required. Accordingly, the request for hearing is denied.

- -FOOTNOTES- - - - - - - - - - - - - - - - - - - -

n71 *See City of New Orleans v. SEC, 969 F.2d at 1167 n.6,* quoting *Wisconsin's Environmental Decade, Inc. v. SEC, 882 F.2d 523, 526 (D.C. Cir. 1989).*

n72 *See City of New Orleans v. SEC, supra* note 53, citing *Connecticut Bankers Ass'n v. Board of Governors of Fed. Reserve Sys., 627 F.2d 245, 251 (D.C. Cir. 1980).*

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IV. Conclusion

We have [*97] carefully examined the Application under the applicable standards of the Act and have concluded, based on the record before us, that the proposed transactions are consistent with those standards.

No federal or state commission other than this Commission has jurisdiction over the proposed transactions, other than as discussed above. As noted above, Applicants state that fees and expenses in connection with the Merger will be approximately $ 41.4 million. Due notice of the filing of the Application has been given in the manner prescribed in rule 23 under the Act.

Upon the basis of the facts in the record, it is hereby found that the applicable standards of the Act and rules under the Act are satisfied, and that no adverse findings are necessary:

IT IS ORDERED, under the applicable provisions of the Act and rules under the Act, that the Application, as amended, is granted and allowed to take effect immediately, subject to the terms and conditions prescribed in rule 24 under the Act.

IT IS FURTHER ORDERED, that, pending completion of the record, jurisdiction is reserved over Enston Home LP and Willow Run, LLC, the Specified EFC Subsidiaries, the Specified Building Projects and the Specified [*98] Funds.

IT IS FURTHER ORDERED, that Florida Progress' interests in Mid-Continent and the Devil Rays be divested.

IT IS FURTHER ORDERED, that the request for hearing is denied.

By the Commission.

Appendix A

Legal Basis for Retention of Nonutility

Businesses of CP&L Energy and Florida Progress

I. Nonutility Businesses of CP&L Energy:

CP&L Energy, Inc. ("CP&L Energy," incorporated in North Carolina) engages indirectly through its subsidiaries in various nonutility businesses. CP&L Energy owns directly all of the voting securities of two utility companies, Carolina Power & Light Company ("CP&L") and North Carolina Natural Gas Corporation ("NCNG") and of four nonutility subsidiary companies: Strategic Resource Solutions Corp. ("SRS"), which directly and through subsidiaries of its own designs, develops, installs, and provides facilities and energy management software systems and other services for educational, commercial, industrial and governmental markets nationwide, and designs, engineers, installs and maintains building automation systems that control heating, ventilation, air conditioning and lighting; Monroe Power Company ("Monroe Power"), an "exempt wholesale generator;" [*99] CPL Energy Ventures, Inc. ("Energy Ventures"), an intermediate holding company that indirectly holds interests in synthetic fuel production facilities located in Virginia, West Virginia, and Kentucky; and CP&L Service Company LLC ("CP&L Service"), a subsidiary service company.

CP&L directly provides fleet vehicle repair and servicing, transformer maintenance services, and data processing services to unaffiliated third parties utilizing resources and personnel who perform these same functions for CP&L. CP&L also sells standing timber on lands that it holds for utility purposes in North and South Carolina. In addition, CP&L owns all of the voting securities of five direct nonutility subsidiaries: Caronet, Inc. ("Caronet"), an "exempt telecommunications company;" Capitan Corporation ("Capitan"), which holds certain land and water rights in Tennessee that are used in CP&L's utility operations; CaroFund, Inc. ("CaroFund") and CaroHome, LLC ("CaroHome"), which are investors in housing projects that qualify for low-income housing tax credits and in historic building renovation projects that also qualify for income tax credits; and CaroFinancial, Inc. ("CaroFinancial"), an inactive company [*100] whose only remaining asset is a receivable evidencing debt incurred by a CP&L employee stock ownership plan. CP&L also holds a 50% membership interest in Eastern North Carolina Natural Gas, LLC ("Eastern NCNG"), which has undertaken the development and construction of a gas pipeline and distribution system in 14 eastern North Carolina counties that are not currently served. In addition to its direct and indirect subsidiaries, CP&L holds passive or small minority investments in several venture capital funds, local economic development ventures and in an "exempt telecommunications company."

NCNG holds all of the outstanding voting securities of four nonutility subsidiaries: Cape Fear Energy Corporation ("Cape Fear"), an inactive company that was previously engaged in marketing natural gas and providing energy management services; NCNG Cardinal Pipeline Investment Corporation ("Cardinal Investment"), which was formed to acquire and hold a 5% membership interest in an intrastate gas pipeline; NCNG Pine Needle Investment Corporation ("Pine Needle Investment"), which was formed to acquire and hold a 5% interest in a liquefied natural gas project in North Carolina; and NCNG Energy Corporation [*101] ("NCNG Energy"), an inactive subsidiary.

Set forth below is a description of the nonutility businesses of CP&L Energy's direct and indirect subsidiaries, along with a citation of authority that justifies retention of such businesses, where applicable.

A. Direct Nonutility Activities of CP&L

1. *Fleet Vehicle Repair and Servicing:* CP&L provides a full range of fleet services (preventive and corrective maintenance, recertification, hydraulic system repairs, etc.) associated with the maintenance, repair and management of governmental and commercial vehicle fleets. CP&L provides and will continue to provide these services to nonassociates after the merger using personnel and facilities that are required for public utility operations. n1

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n1 The Commission has authorized subsidiaries of registered holding companies to offer services to nonassociates utilizing equipment and facilities acquired for their own purposes during periods of nonutilization. *See Indiana & Michigan Electric Co.*, Holding Co. Act Release 24039 (Mar. 4, 1986) (use of coal transportation equipment); *Ohio Power Company*, Holding Co. Act Release No. 25427 (Dec. 11, 1991) (railcar repair services).

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[*102]

2. *Transformer Maintenance Services:* CP&L provides transformer repair services, primarily to other utilities and municipalities, including single-phase polemount and padmount, three-phase padmount, and small power transformers. Work includes both shop and field service and sale of refurbished transformers. CP&L provides and will continue to provide these services to nonassociates after the merger using personnel and facilities that are required for public utility operations. n2

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n2 *Id.*

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3. *Data Processing Services:* CP&L operates a division called *statusgo.com*, an application services provider that provides, supports and manages a broad range of specialized facilities management software and information systems designed to help businesses and organizations manage and maintain facilities and equipment more efficiently. The division provides information technology infrastructure, application software, and business process and program management to nonassociates. CP&L provides and will continue to provide [*103] these services to nonassociates after the merger using personnel and data processing equipment that are required for public utility operations. n3

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n3 The Commission has authorized subsidiaries of registered holding companies to sell data processing services. *See e.g.*, *Cinergy Corp.*, Holding Co. Act Release No. 26662 (Feb. 7, 1997).

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4. *Sales of Timber:* CP&L makes sales of standing timber on land held for utility uses. n4

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n4 *See National Fuel Gas Company, et al.*, Holding Co. Act Release No. 19088 (July 15, 1975).

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5. *Other Services:* CP&L sells products and services providing for protection from electrical surges resulting from lightning strikes and other surge anomalies (principally to residential and commercial customers), and transmission and distribution system services (principally to industrial and municipal customers, *e.g.*, system [*104] operations and maintenance services, substation construction and maintenance, reconductoring, etc.). n5

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n5 *See New Century Energies, Inc.*, Holding Co. Act Release No. 26748 (Aug. 1, 1997) (permitting Public Service Company of Colorado to retain business of marketing various electrotechnology products and services, including surge protection equipment); and Rule 58(b)(vii).

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B. Nonutility Subsidiaries of CP&L Energy

1. *SRS* n6 directly and through four wholly-owned subsidiaries designs, develops, installs, and provides facilities and energy management software systems and other services for educational, commercial, industrial and governmental markets nationwide, and designs, engineers, installs and maintains building automation systems that control heating, ventilation, air conditioning and lighting. SRS's subsidiaries are: (i) *Applied Computer Technologies Corp.*, which develops and sells energy and facilities management systems for educational institutions; (ii) *ACT Controls, Inc.*, which also develops [*105] and sells energy and facilities management systems for educational institutions; (iii) *Spectrum Controls, Inc.*, which develops, installs and services energy and facilities management systems for educational institutions as well as for commercial and industrial customers; and (iv) *SRS Engineering Corp.*, an inactive subsidiary whose sole purpose is to hold a professional engineering license in the State of North Carolina.

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n6 Rule 58(b)(1)(i); the Commission has authorized registered holding companies to engage in substantially identical businesses in *Cinergy Corp., supra n.* 3, and *Conectiv, Inc.*, Holding Co. Act Release No. 26832 (Feb. 25, 1998).

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2. *Monroe Power* n7 is an "exempt wholesale generator" ("EWG") within the meaning of Section 32 of the Act. It owns and operates a 160 MW simple-cycle combustion turbine unit located in Monroe, Georgia, the output of which is sold to the Municipal Electric Authority of Georgia under a 5-year contract that commenced in December 1999.

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n7 *See Monroe Power Company, 87 FERC P61,238* (May 28, 1999).

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[*106]

3. *Energy Ventures*, an intermediate nonutility holding company, n8 is the sole member of *CPL Synfuels, LLC ("CPL Synfuels")*, a North Carolina limited liability company. CPL Synfuels, in turn, holds (i) a 90% interest in *Solid Fuel, LLC*, a Delaware limited liability company, which owns a facility located in Virginia that produces synthetic fuel from coal fines and other by-products of coal, (ii) a 90% interest in *Sandy River Synfuel, LLC*, a Delaware limited liability company, which owns a facility located in West Virginia that produces synthetic fuel from coal fines and other by-products of coal, and (iii) a 9% interest in *Colona Synfuel, LLLP*, a registered Delaware limited liability limited partnership, which owns a facility located in Kentucky that produces synthetic fuel from coal fines and other by-products of coal. Each of these facilities produces synthetic fuel from coal that is intended to qualify for federal income tax credits under Section 29 of the Internal Revenue Code of 1986, as amended. n9

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n8 *See, e.g., New Century Energies, Inc.*, Holding Co. Act Release No. 27000 (Apr. 7, 1999) (authorizing organization and capitalization of one or more "intermediate" nonutility subsidiaries to act as holding companies over other nonutility subsidiaries). [*107]

n9 Rule 58(b)(vi) (production and sale of alternative fuels); also Rule 58(b)(x) (processes for utilization of coal waste by-products).

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

4. *CP&L Service* has been formed as a subsidiary service company to provide management, administrative and other corporate support services to its associate companies in the CP&L Energy system. The Commission has been asked to approve its organization as such pursuant to Section 13(b) of the Act and Rule 88.

C. Nonutility Subsidiaries of CP&L

1. *Caronet*, n10 an "exempt telecommunications company" ("ETC") within the meaning of Section 34 of the Act, was organized to hold CP&L's interests in other companies that own and operate fiber optic telecommunications facilities and provide Internet-based services. Caronet holds (i) a 20% interest in *CFN FiberNet, LLC*, a North Carolina limited liability company that is engaged in marketing wholesale capacity on an asynchronous transfer mode network to network carriers for its five members (which include Caronet) in Virginia, North Carolina, and South Carolina, and (ii) a 35% interest in *Interpath Communications,* [*108] *Inc. ("Interpath")*, a Delaware corporation that offers a full range of managed application services, Internet-protocol based applications and Internet consulting services to businesses. Interpath in turn holds a 33-1/3% interest in *Autonomous Networks, LLC*, a Delaware limited liability company, which owns and operates a national Internet-protocol network with points of presence in four major cities of the United States connected by a full mesh ATM (asynchronous transfer mode) network implemented on leased circuits.

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n10 Section 34. Caronet filed an application with the Federal Communications Commission ("FCC") requesting a determination of ETC status, which was deemed granted following expiration of the 60-day notice period.

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2. *Capitan*, n11 a Tennessee corporation, was organized in the 1920s to acquire and hold certain land and water rights in Tennessee that are used to assure the supply of water for the production of hydroelectric power in CP&L's hydroelectric operations on the Pigeon River. It does not conduct [*109] any active business operations.

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n11 *See WPL Holdings, Inc.*, Holding Co. Act Release No. 26856 (Apr. 14, 1998); *New Century Energies, Inc., et al. ("Xcel")*, Holding Co. Act Release No. 27212 (Aug. 16, 2000).

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3. *CaroFund* holds a 1% membership interest in *CaroHome* n12 and participates with CaroHome and other ventures in which CaroHome has invested in affordable housing projects that qualify for affordable housing credits under the provisions of the Low Income Housing Tax Credit Program ("LIHTC") under Section 42 of the Internal Revenue Code of 1986, as amended ("Code"), and in historic building renovation projects that qualify for historic building rehabilitation credits under Section 47 of the Code. n13

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n12 CP&L holds the remaining 99% membership interest in CaroHome directly.

n13 The Commission has permitted other new registered holding companies to retain similar passive interests in tax-credit affordable housing and historic building properties. *See WPL Holdings, Inc., supra, n.* 11, and *Ameren Corporation*, Holding Co. Act Release No. 26809 (Dec. 30, 1997) (permitting retention of tax-credit properties located in the states in which those systems operate as utilities); and *Exelon Corporation*, Holding Co. Act Release No. 27256 (Oct. 19, 2000) (permitting retention of passive interests in funds holding national portfolios of tax-credit properties).

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[*110]

CP&L, CaroHome and CaroFund together have investments in a total of 53 entities that own or are developing LIHTC properties or properties that qualify for historic building rehabilitation credits. Five of these investments are in syndicated national funds; the remaining 48 are direct investments in limited partnerships or limited liability companies that own or are developing individual tax-credit properties in North and South Carolina. They are described in greater detail as follows:

(a) Syndicated National Affordable Housing Funds. CP&L directly holds a 99% limited partnership interest in *WNC Institutional Tax Credit Fund, LP*. CaroHome holds limited partnership interests in four syndicated funds, as follows (percentage interest indicated): *ARV Partners IV - Anaheim, LP* (19.8%), *Dominion ARV Villa, LP* (19.3%), *Cedar Tree Properties LP* (25%), and *First Partners II, LP*

(15.8%). Each of these five funds holds interests in a geographically diversified portfolio of affordable housing projects that are located throughout the United States. The investments by CP&L and CaroHome were made exclusively for the purpose of obtaining the available income tax credits provided [*111] under the Code. CP&L's and CaroHome's interests in these entities are passive in every case. They have no role in the management or operation of any of these entities. Further, the investments in all five funds are "self-liquidating," *i.e.*, the assets wind down as the tax-credits expire. n14

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n14 CP&L's and CaroHome's investments in these syndicated national affordable housing funds satisfy the criteria for retention set forth in *Exelon Corporation, supra n.* 13.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(b) Direct Investments in Individual Affordable Housing and Historic Rehabilitation Tax Credit Properties. CP&L has direct investments in four limited partnerships that own affordable housing properties that are located inside CP&L's service territory, as follows (percentage interest indicated): *Absolut Limited Partnership LP* (99%), *Better Homes for Garner LP* (99%), *Capital City Low Income Housing LP* (99%), *and Walnut Street LP* (99.9%). In addition, CP&L holds an interest in *Powerhouse Square, LLC* (99%), which owns an historic [*112] building renovation project, also located in CP&L's service territory. CP&L is a passive investor in all five of these entities.

CaroHome and CaroFund together hold a total of 43 direct investments in LIHTC and historic building rehabilitation tax credit projects, as follows (percentage interest indicated); *Affordable Housing Developers, LLC* (51%), *Bradford Place of Fuquay-Varina LP* (99%), *Siler City- Cateland Place LLC* (99.99%), *Creston Commons, LLC* (99.99%), *Lumberton-Chestnut Place LLC* (99%), *Dillon Apartments of South Carolina* (99%), *Enston Home LP* (99%), *Excelsior Apartments LP* (99%), *Garden Spring Housing Association, LLC* (99%), *The Garner School Apartments LP* (99%), *Wilmington-Hooper School Apts. LLC* (99.99%), *Mountainside LLC* (99.99%), *Meadow Spring Housing Assoc. LLC* (99.99%), *Hartsville Apartments LP* (99%), *Manor Associates LP* (99%), *Asheboro-North Forest LLC* (99%), *Northgate II LLC* (99.99%), *Knightdale Development LLC* (99.99%), *Parkview Housing Associates LP* (99%), *Prairie Limited Liability Company* (99.99%), *Ridgewood Housing Assoc LLC* (99%), *Arden-River Glen LLC* (99%), *Rockwood North* [*113] *LLC* (99.99%), *Rockwood AH-1 LP* (99%), *Marion Apartments LP* (99%), *Spring Forest Housing Assoc, LLC* (99.99%), *Bishopville Apartments LP* (99%), *Havelock-Tyler Place Apartments LLC* (99%), *West Cary Apartments LLC* (99.99%), *Westridge Woods LLC* (99%), *Wilrik Hotel Apartments LLC* (99.9%), *Asheville-Woodridge LP* (99.99%), *Knightdale Apts. LLC* (99%), *Savannah Place Apartments, LLC* (99.99%), *Willow Run, LLC* (99.99%), *Wind Ridge, LLC* (99.99%), *Baker House Apartments LLC* (99.99%), *Mount Olive School Apartments LLC* (99.99%), *HGA Development, LLC* (99.99%), *Grove Arcade Restoration, LLC* (99.99%), *Historic Property Management LLC* (51%), *Raleigh -- CaroHome/WCK, LLC* (99.99%), and *Trinity Ridge LLC* (99.99%).

CaroHome is co-developing and, under the organizational documents, will act as co-manager of five of the projects listed in the preceding paragraph: *Grove Arcade Restoration LLC, HGA Development, LLC*, and *Historic Property Management, LLC*, which are involved in an historic building restoration project in Asheville, North Carolina; and *Raleigh-CaroHome/WCK, LLC* and *Trinity Ridge LLC*, which are developing [*114] affordable housing projects in the Raleigh area. n15 On or before November 1, 2003, CP&L Energy will either cause CaroHome and

CaroFund to sell these investments or convert their ownership interests into passive interests. In every other case, CaroHome and CaroFund are passive investors.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - - -

n15 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

With two exceptions, all of the projects listed above are located in CP&L's and NCNG's combined service territory. The exceptions are *Enston Home LP* and *Willow Run, LLC*. n16 *Enston Home LP* owns an historic building rehabilitation property in Charleston, South Carolina. *Willow Run, LLC* is building a low-income housing project in Morganton, North Carolina, which is in western North Carolina but is not in CP&L's retail service territory.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - - -

n16 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

The principal objectives of CP&L, CaroHome and CaroFund in investing [*115] in individual LIHTC and historic building renovation projects that are located in North and South Carolina are to (i) assist the residents in CP&L's and NCNG's service areas by providing funds for sound and affordable housing for income qualifying individuals and families; (ii) assist in efforts to preserve architecturally significant and historic structures; (iii) realize income tax credits provided under the Code as well as under state law; and (iv) achieve possible long-term gains through the appreciation and future sale of these investments. Although they are passive investors in these ventures (with the five exceptions already noted), they exercise investment oversight, which includes reviewing and analyzing financial statements generated by third-party property management firms against the approved budgets for the investments and conducting due diligence assessments to determine whether properties remain in compliance with the provisions of the Code and state tax laws. Investment management also includes on-site inspections to determine that the physical structure and grounds are properly maintained. The term of the LIHTC investments is generally 15 years and the term of the [*116] historic building restoration projects is generally five years.

At June 30, 2000, CP&L's direct and indirect investments in all of the entities listed above totaled approximately $ 83.2 million.

4. *CaroFinancial* n17 holds a receivable evidencing debt incurred by a CP&L employee stock ownership plan. It does not conduct any active business operations.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - - -

n17 Inactive.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

5. *Eastern NCNG*, n18 a North Carolina limited liability company, is 50% owned by CP&L and 50% owned by Albermarle Pamlico Economic Development Corporation, a

North Carolina non-member, non-profit, tax-exempt corporation created to encourage infrastructure and economic development in eastern North Carolina. Eastern NCNG was recently awarded a certificate of public convenience and necessity to serve 14 counties in eastern North Carolina that are not now served with natural gas. When Eastern NCNG commences delivery of natural gas at retail in 2001, it will become a "gas utility company" within the meaning of Section 2(a)(4) of the Act. CP&L Energy intends [*117] to file a separate application with the Commission pursuant to Sections 9(a)(1) and 10 of the Act to acquire and retain Eastern NCNG as an additional public utility subsidiary.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n18 *See Joint Application of Albemarle Pamlico Economic Development Corporation et al.*, Order Granting Certificate, NCUC Docket No. G-44, Sub 0 (June 15, 2000). Eastern NCNG will become a "gas utility company" at such time as its distribution system is placed in service. CP&L Energy intends to file a separate application under Sections 9(a) and 10 of the Act with respect to the acquisition and retention of Eastern NCNG.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

D. Other Passive Investments of CP&L

CP&L holds passive investments in the following nonutility companies (percentage interest indicated):

1. *Utech Venture Capital Corporation* (9.76%), n19 a Delaware corporation in which CP&L holds a 9.76% interest, is a venture capital fund that provides capital for the development and commercialization of new technologies intended to benefit electric utilities, augment research and [*118] development, provide investors with a window on technical developments, and provide partnering opportunities to new start-up companies that offer new products and services to the utility industry. CP&L's investment in this entity is approximately $ 4.5 million.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n19 Rule 58(b)(1)(ii). *See also General Public Utilities Corp.*, Holding Co. Act Release No. 26230 (Feb. 8, 1995); and *Exelon Corporation, supra n.* 13 (authorizing retention of 24.4% interest in UTECH Climate Challenge Fund, L.P.).

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

2. *Utech Climate Challenge Fund, LP* (9.8%), n20 a Delaware limited partnership in which CP&L holds a 9.8% limited partnership interest, invests in existing and start-up companies that offer products or services that will generate greenhouse gas emission reductions for submission to the Department of Energy as "Climate Challenge" credits pursuant to Title XVI of the Energy Policy Act of 1992. CP&L's investment in this entity is approximately $ 2.2 million.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n20 *Id.*

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

[*119]

3. *Utility Competitive Advantage Fund, LLC* (11.1%), n21 a Delaware limited liability company, makes venture capital investments in companies that assist utilities in retaining and building their customer base, improving cost efficiencies, and/or generating new revenue opportunities. CP&L's investment in this entity is approximately $ 8.1 million.

- - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - -

n21 Jurisdiction reserved.

- - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - -

4. *Utility Competitive Advantage Fund II, LLC* (15.79%), n22 a Delaware limited liability company, makes venture capital investments in companies that assist utilities in retaining and building their customer base, improving cost efficiencies, and/or generating new revenue opportunities. CP&L's investment in this entity is approximately $ 3.0 million.

- - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - -

n22 Jurisdiction reserved.

- - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - -

5. *Carousel Capital Partners, LP* (3.1%), n23 a North Carolina limited partnership in which CP&L [*120] holds a 3.1% limited partnership interest, for uses on investments in established, strategically positioned, mid-sized companies located in the Southeast. CP&L's investment in this entity is approximately $ 3.2 million.

- - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - -

n23 Jurisdiction reserved.

- - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - -

6. *South Atlantic Private Equity Fund IV, LP* (8.9%), n24 a Florida limited partnership in which CP&L holds an 8.9% limited partnership interest, provides equity funds to emerging growth companies in both technology and non-technology related markets, with an emphasis on investments located in Florida, the southeastern United States and Texas. CP&L's investment in this entity is approximately $ 3.0 million.

- - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - -

n24 Jurisdiction reserved.

- - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - -

7. *NC Enterprise Fund, LP* (5%), n25 a North Carolina limited partnership in which CP&L holds a 5% limited partnership interest, was established to assist new business ventures [*121] in North Carolina by investing in start-ups who commit to operating businesses that will provide employment opportunities in North Carolina. NCNG also holds a .25% limited partnership interest in this entity. CP&L's and NCNG's combined investment in this entity is approximately $ 1.4 million.

- -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n25 The Commission has authorized registered holding companies to retain passive and/or *de minimis* interests in industrial and other nonutility enterprises located in the service territory of the registered holding company that were formed to promote local economic development by creating new job opportunities, expanding the local tax base, attracting new industries, and retaining existing industries. *See WPL Holdings, supra n.* 11 (retention of 54.55% interest in company organized to promote economic development in downtown Cedar Rapids, Iowa); and *Exelon Corporation, supra n.* 13. The Commission has also authorized registered holding companies to make such investments. *See e.g., Union Electric Co*, Holding Co. Act Release No. 14608 (Mar. 22, 1962). *See also* Rule 40(a)(5), which permits such investments without approval, subject to specified investment limitations. In addition, the Commission has approved investments in limited partnerships formed to make venture capital investments within the utility service area. *See e.g., Georgia Power Company*, Holding Co. Act Release No. 25949 (Dec. 15, 1993) (limited partnership formed to provide venture capital to high-technology companies with primary operations in the State of Georgia), *Hope Gas, Inc.*, Holding Co. Act Release No. 25739 (Jan. 26, 1993) (venture capital partnership designed to provide venture capital to local businesses), and *The Potomac Edison Co.*, Holding Co. Act Release No. 25312 (May 14, 1991) (for-profit, economic development corporation created to stimulate and promote growth and retain jobs).

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

[*122]

8. *I-40 Enterprises, LLC* (49%), n26 a North Carolina limited liability company in which CP&L holds a 49% interest, was organized to build and to sell or lease an industrial building on Interstate 40 in New Hanover County, North Carolina, which is in CP&L's service territory, for economic development purposes. CP&L's investment in this entity is approximately $ 500,000.

- -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n26 *Id.*

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

9. *Southeast Regional Park Development Company, LLC* (33.33%), n27 a North Carolina limited liability company in which CP&L holds a 33.33% interest, was organized to build and sell or lease an industrial building in Columbus County, North Carolina, which is in CP&L's service territory, for economic development purposes. CP&L's investment in this entity is approximately $ 400,000.

- -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n27 *Id.*

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

10. *Palmetto Seed Capital Challenge Fund LP* (3.7%), n28 a South Carolina [*123] limited partnership in which CP&L holds a 3.7% limited partnership interest, was established to assist new business ventures in South Carolina. CP&L's investment in this entity is approximately $ 800,000.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n28 *Id.*

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

11. *Maxey Flats, LLC* (3%), a Virginia limited liability company in which CP&L holds a 3% interest, was organized to handle environmental clean up at the Maxey Flats Superfund site in Fleming County, Kentucky. In the past, CP&L has shipped low level nuclear waste to this site. The contributions by CP&L and the other members to this entity are used for remediation of the site, to satisfy obligations to perform the Initial Remediation Phase under the De Maximus Consent Decree filed in the United States District Court for the Eastern District of Kentucky (Civil Action No. 95-58).

12. *Pantellos Corporation* (1%), n29 a Delaware corporation in which CP&L holds an approximate 1% interest, is an ETC. The company was recently organized to provide e-supply chain solutions to the electric utility, gas utility, [*124] natural gas pipeline and other energy sectors, by providing an open environment that enables participants to conduct supply chain activities and transactions through its secure Internet-based eMarketplace.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n29 Section 34. Pantellos Corporation filed an application with the FCC requesting a determination of ETC status, which was deemed granted following expiration of the 60-day notice period.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

E. Subsidiaries of NCNG

1. *Cape Fear* n30 was previously engaged in purchasing natural gas for resale to large industrial and commercial users and the municipalities served by NCNG, as well as the business of providing energy management services.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n30 Inactive.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

2. *Cardinal Investment* is an intermediate nonutility holding company whose sole asset is a 5% membership interest in *Cardinal Pipeline Company, LLC* ("Cardinal Pipeline"). n31 Cardinal Pipeline [*125] was formed to acquire an existing intrastate pipeline in North Carolina and to extend it.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n31 *New Century Energies, Inc., supra n. 5; SCANA Corporation,* Holding Co. Act Release No. 27133 (Feb. 9, 2000); and *Xcel, supra n.* 11.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

3. *Pine Needle Investment* is an intermediate nonutility holding company whose sole asset is a 5% membership in *Pine Needle LNG Company, LLC* ("Pine Needle

LNG"). n32 Pine Needle LNG owns and operates a liquefied natural gas project in North Carolina.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n32 *Id.*

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

4. *NCNG Energy* n33 previously held certain nonutility, energy-related investments of NCNG that have been transferred to Cardinal Investment and Pine Needle and sold natural gas to resellers.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n33 Inactive.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -
[*126]

II. Nonutility Businesses of Florida Progress:

Florida Progress Corporation ("Florida Progress," incorporated in Florida, owns directly all of the voting securities of one public utility company, Florida Power Corporation ("Florida Power"), and three nonutility subsidiaries: Progress Capital Holdings, Inc.; FPC Del, Inc.; and Florida Progress Funding Corporation.

Florida Power directly provides transmission and distribution facilities construction services and outage maintenance services to unaffiliated utilities and construction services for relay towers for mobile phones utilizing personnel and facilities required for public utility operations.

Progress Capital serves as the holding company for substantially all of Florida Progress's nonutility operations. Its principal subsidiary is Electric Fuels Corporation ("Electric Fuels"), an energy and transportation company with operations organized into three primary business units: energy and related services; inland marine transportation; and rail services. The energy and related services business unit of Electric Fuels mines and sells coal to Florida Power for use at its Crystal River generating plant and to other utility and [*127] industrial customers. This business unit also produces and sells natural gas and synthetic fuel, and provides marine terminal services and offshore marine transportation. The inland marine transportation business unit transports coal and dry-bulk cargoes using a fleet of river barges and tow boats. The rail services business unit, conducted primarily through Progress Rail Services Corporation, is one of the largest integrated processors and suppliers of railroad materials in North America.

Other subsidiaries of Progress Capital are engaged in the wholesale telecommunications business and the insurance business. Progress Telecommunications Corporation sells wholesale fiber optic based capacity in Florida to long-distance carriers, Internet service providers and other telecommunications companies, as well as to large industrial, commercial and governmental entities. Progress Capital also holds all of the outstanding voting securities of Mid-Continent Life Insurance Company, a life insurance company that was placed in receivership in the spring of 1997 based on assertions that its policy reserves were understated.

Set forth below is a description of each of the nonutility activities [*128] of Florida Progress's direct and indirect subsidiaries, along with a citation of authority that justifies retention of the activity, where applicable.

A. Direct Nonutility Activities of Florida Power

1. *Construction of Transmission and Distribution Facilities:* Florida Power provides transmission and distribution construction services to unaffiliated utilities. Florida Power provides and will continue to provide these services after the merger using personnel and other resources that are required for public utility operations. n34

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n34 *Indiana & Michigan Electric and Ohio Power, supra n.* 1. Also, Rule 58(b)(1)(vii).

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

2. *Outage Maintenance Services:* Florida Power provides outage maintenance services to unaffiliated utilities. Florida Power provides and will continue to provide these services after the merger using personnel and other resources of Florida Power that are required for public utility operations. n35

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n35 *Id.*

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -
[*129]

3. *Construction of Relay Towers for Mobile Phones:* Florida Power provides construction services to unaffiliated third parties for communications relay towers. Florida Power provides and will continue to provide these services after the merger using personnel and other resources of Florida Power that are required for public utility operations. n36

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n36 *Id.*

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

B. Direct Nonutility Subsidiaries of Florida Progress

1. *Progress Capital Holdings, Inc.* n37 is the holding company for substantially all of Florida Progress's nonutility subsidiary companies.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n37 *See New Century Energies, supra. n.* 8.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

2. *FPC Del, Inc.*, a Delaware corporation, generates tax savings by temporarily holding accounts receivable for Florida Power Corporation and Progress Rail Services Corporation. n38

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n38 *See Central and South West Corporation*, Holding Co Act Release No. 23578 (Jan. 22, 1985).

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

[*130]

3. *Florida Progress Funding Corporation* n39 is a special-purpose financing entity organized in early 1999 to facilitate a trust preferred stock financing transaction. It owns *FPC Capital I*, a Delaware business trust, n40 and *FPC Capital II*, which is currently inactive.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n39 *The Southern Company,* Holding Co. Act Release No. 27134 (Feb. 9, 2000); *New Century Energies, Inc., supra n. 5* (SEC approved a special purpose subsidiary of trust that was formed for the purpose of facilitating a financing transaction); and *Exelon Corporation, supra n.* 13 (authorizing retention of several existing special-purpose financing entities).

n40 *Id.*

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

C. Subsidiaries of Progress Capital

1. *Mid-Continent Life Insurance Company*, n41 an Oklahoma corporation, provides life insurance services in numerous states. Florida Progress is in the process of divesting this company.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n41 Proposed divestiture.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

[*131]

2. *PIH, Inc.* n42 is an intermediate holding company for passive investments in affordable housing projects that qualify for income tax credits under Section 42 of the Code.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n42 *See New Century Energies, supra n. 8.*

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

3. *Progress Reinsurance Company, Ltd.*, n43 a British West Indies Corporation, is a captive insurance company.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n43 *Conectiv*, Holding Co. Act Release No. 27135 (Feb. 10, 2000); *GPU, Inc.*, Holding Co. Act Release No. 27196 (July 6, 2000).

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

4. *Progress Telecommunications Corporation*, n44 a Florida corporation, is an ETC under Section 34 of the Act.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n44 Section 34. Progress Telecommunications filed an application with the FCC requesting a determination of ETC status, which was deemed granted following expiration of the 60-day notice period.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

[*132]

5. *Progress Energy Corporation* n45 is a Florida corporation that was formed to develop independent and cogeneration power projects and is currently inactive. The corporation's sole investment is an indirect interest in the *Black River Limited Partnership*, a Delaware limited partnership.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n45 Inactive.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(a) *PEC Fort Drum, Inc.* n46 is an intermediate holding company that owns interests in: *Westmoreland-Ft. Drum, L.P.* n47 and *Westpower-Ft. Drum, L.L.P.*, n48 both intermediate holding companies that own interests in *Black River Limited Partnership*, a Delaware limited partnership that operates an EWG. n49

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n46 *See New Century Energies, supra n. 8.*

n47 *Id.*

n48 *Id.*

n49 *See Black River Limited Partnership, 91 FERC P62,038* (Apr. 18, 2000).

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(b) *Progress Desal,* [*133] *Inc.* n50 is a Florida corporation that proposed to develop and operate a desalinization facility that would supply potable water for the Tampa Bay area but is now inactive since its proposal was not accepted.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n50 Inactive.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(c) *Progress Power Marketing, Inc*, n51 a Florida corporation that is currently inactive.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n51 Inactive.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

6. *Progress Holdings, Inc.* n52 is a Florida corporation that is an ETC. It owns *Cadence Network, Inc.*, a Delaware corporation that is also an ETC. n53

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n52 Section 34. Progress Holdings filed an application with the FCC requesting a determination of ETC status, which was deemed granted following expiration of the 60-day notice period.

n53 Section 34. Cadence Network filed an application with the FCC requesting a determination of ETC status, which was deemed granted following expiration of the 60-day notice period.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -
[*134]

7. *Progress Provisional Holdings, Inc.* n54 leases an apartment that is used for temporary lodging by senior management of Florida Progress and its subsidiaries in connection with company business in order to minimize lodging expenses.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n54 *UNITIL Corp*, Holding Co. Act Release No. 25524 (April 24, 1992); *WPL Holdings, Inc., supra n.* 11; *Xcel, supra n.* 11.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

8. *Electric Fuels Corporation*, n55 a Florida corporation, is an energy and transportation company with operations organized into three primary business units: energy and related services; inland marine transportation; and rail services. Electric Fuels engages directly in fuel procurement and owns railcars and locomotives that are used for coal transportation. Electric Fuels also owns a number of subsidiaries, which are described below. Electric Fuels was formed for the purpose of being an efficient coal purchasing arm of Florida Power that would provide Florida Power's Crystal River generating plant with all of its coal needs. As part of Electric [*135] Fuels' corporate plan to develop two modes of transporting coal to the Crystal River plant (rail and barge), additional coal mining operations, terminals, rail repair and transportation companies were acquired. Electric Fuels' energy and transportation subsidiaries have operations in numerous states, Canada and Mexico. The Commission is requested to reserve jurisdiction over CP&L Energy's retention of certain specified subsidiaries of Electric Fuels Corporation (as indicated in the footnotes hereto) for a period of three years following the Share Exchange and CP&L Energy's registration under the Act.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n55 Rule 58(b)(1)(ix).

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

D. Nonutility Subsidiaries of Electric Fuels Corporation

1. *Awayland Coal Company, Inc.* and *Homeland Coal Company Inc.*, both wholly owned by Electric Fuels, mine coal in Kentucky and Virginia through their partnership in *Powell Mountain Joint Venture.* n56

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n56 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -
[*136]

2. *Dixie Fuels Limited.* n57 a Texas partnership, was formed to operate an ocean-going barge system for the transportation of coal from the New Orleans area to Florida Power's Crystal River plant and other bulk commodities. Dixie Fuels also backhauls limestone from a quarry at Crystal River to a cement plant near Mobile, Alabama, owned by a third party. Electric Fuels owns a 65 percent interest in the partnership, and the remaining interest is held by an unrelated company.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n57 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

3. *Dixie Fuels II, Limited* n58 is an inactive Texas partnership that formerly owned and operated one tug/barge unit used primarily for hauling bulk cargo for unaffiliated companies. The vessel has been sold and the partnership is in the process of being liquidated. Electric Fuels owns a 50 percent partnership interest.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n58 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

4. [*137] *EFC Synfuel L.L.C.* n59 is an intermediate holding company of interests in the following synthetic fuel plant entities which own secondary coal recovery system facilities: *Ceredo Synfuel L.L.C.; Sandy River Synfuel L.L.C.; Solid Energy L.L.C.;* and *Solid Fuel L.L.C.* n60

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n59 *See New Century Energies, supra n. 8.*

n60 Rule 58(b)(1)(vi); also Rule 58(b)(1)(x).

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

5. *Kentucky May Coal Company, Inc.*, n61 a Virginia corporation, owns coal mines and leases coal reserves in Kentucky. Kentucky May was purchased by Electric Fuels in 1985 in order to position Electric Fuels strategically in the coal market to mine coal competitively. Electric Fuels, through Kentucky May Coal Company, Inc. owns the following companies:

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n61 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(a) *Diamond May Coal Company* n62 is a Kentucky corporation that operates [*138] coal facilities and mines coal in Kentucky.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n62 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(1) *Diamond May Mining Company* n63 is a Florida Corporation that mines coal in Kentucky.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n63 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(b) *Cincinnati Bulk Terminals, Inc.* n64 is a Delaware corporation that serves as a transloading and distribution point for coal and other bulk materials in the greater Cincinnati, Ohio area.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n64 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(1) *Kanawha River Terminals, Inc.* n65 is a Florida corporation that sells and terminals coal and other bulk materials in West Virginia and Kentucky. It is also an intermediate holding company with interests in the following synthetic fuel plant entities: *Colona Sub No. 2, L.L.C.* [*139] and *Colona Newco, L.L.C.*, both partners in *Colona Synfuel Limited Partnership, L.L.L.P.*, which sells and produces solid synthetic fuel; *Black Hawk Synfuel L.L.C.* has an ownership interest in *New River Synfuel L.L.C.*, which produces synthetic fuel and markets various services; *Coal Recovery V, L.L.C.* a Missouri corporation that conducts research and develops synthetic fuel; and *Ceredo Liquid Terminal, Inc.* a Florida corporation that operates a terminal for the storage, production and processing of an emulsion product that is the chemical change agent used with coal fines to produce the synthetic fuel. n66

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n65 Jurisdiction reserved.

n66 Rule 58(b)(1)(vi).

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(2) *Marigold Dock, Inc.*, n67 an Alabama corporation, owns a coal loading facility in Kentucky

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n67 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(c) *Kentucky May Mining Company* n68 is a Florida [*140] corporation that mines coal in Kentucky.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n68 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

6. *Murphy Land Company, Inc.*, a Virginia corporation owns a 20 percent partnership interest in *Dulcimer Land Company*. n69 Dulcimer Land Company leases 33,000 acres of coal-producing land in Kentucky and Virginia from the *Little Black Mountain Land Company* n70 and subleases the land to Powell Mountain Joint Venture. It also manages coal reserves in Kentucky and Virginia.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n69 Jurisdiction reserved.

n70 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

7. *Little Black Mountain Coal Reserves, Inc.*, n71 a Kentucky corporation, owns an 80 percent partnership interest in *Dulcimer Land Company*.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n71 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

8. *MEMCO* [*141] *Barge Line, Inc.* ("MEMCO"), n72 a Delaware corporation, is Electric Fuels' inland marine transportation unit. It hauls coal, petroleum coke, synthetic coal fuel, wood chips, limestone, steel products, lime, salt, fertilizer, grain and grain products and other bulk commodities. MEMCO operates primarily on the Illinois, Ohio and Mississippi rivers and the Gulf Intracoastal Canal. The following are subsidiaries of MEMCO:

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n72 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(a) *Elmwood Marine Services, Inc.* n73 a Louisiana corporation, engages in the fleeting, washing and repair of barges in Louisiana and maintains a 33-1/3 percent ownership interest in International Marine Terminals Partnership.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n73 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(1) *Conlease, Inc.* n74 is a Louisiana corporation that owns batture leases in Louisiana. (Batture is the right to use a river bank area to fleet barges). [*142]

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n74 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(2) *International Marine Terminals Partnership* ("IMT") n75 was formed to develop and operate a bulk commodities terminal facility on the Mississippi River south of New Orleans. IMT transloads coal from barges to Dixie Fuels vessels. It also stores and blends coal destined for Crystal River. IMT also is the receiving point for import coal destined for Crystal River, since the Crystal River channel is too shallow to handle import ships directly. IMT's subsidiary *I.M.T. Land Corp.* n76 owns terminal land in Louisiana that it leases to IMT.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n75 Jurisdiction reserved.

n76 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

9. *Mesa Hydrocarbons, Inc.* n77 is a Florida corporation that owns natural gas reserves and operates wells in Colorado and sells natural gas.

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n77 *See WPL Holdings, supra n.* 11 (authorizing retention of Whiting Petroleum Corporation, an oil and gas exploration and production subsidiary).

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -
[*143]

10. *Powell Mountain, Inc.* is a holding company that owns interests in the following coal mining companies; *Powell Mountain Coal Company, Inc.* and *PMCC, Inc.*, both Virginia corporations. n78

- - - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n78 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

11. *Progress Land Corporation*, n79 a Florida corporation, owns and manages coal reserves in Kentucky.

- -FOOTNOTES- - - - - - - - - - - - - - - - - - - -

n79 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

12. *Progress Materials, Inc.*, n80 a Florida corporation, commercializes and manufactures ash management technologies. Progress Materials owns the carbon burnout technology which combusts the excess carbon in fly ash, recovers the heat and generates useable fly ash for the cement industry.

- -FOOTNOTES- - - - - - - - - - - - - - - - - - - -

n80 Rule 58(b)(1)(x).

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

13. *Progress Metal* [*144] *Reclamation Company*, n81 a Kentucky corporation has a railcar scrapping and general metal recycling facility in Kentucky. It also has an ownership interest in *West Virginia Auto Shredding*, a West Virginia corporation. n82

- -FOOTNOTES- - - - - - - - - - - - - - - - - - - -

n81 Jurisdiction reserved.

n82 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

14. *Progress Rail Services Corporation ("Progress Rail")* n83 is an Alabama corporation that provides rail and track material, new and reconditioned car parts, car repair and car leasing services in the United States, Mexico and Canada. It has ownership interests in the following companies:

- -FOOTNOTES- - - - - - - - - - - - - - - - - - - -

n83 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(a) *Chemetron-Railway Products, Inc.* n84 is a Delaware corporation that sells and leases rail welding and handling equipment and provides rail welding services throughout the United States and in Canada.

- -FOOTNOTES- - - - - - - - - - - - - - - - - - - -

n84 Jurisdiction reserved.

- - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - -
[*145]

(b) *FM Industries, Inc.* n85 is a Texas corporation that manufactures original railcar parts in Texas.

- - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - -

n85 Jurisdiction reserved.

- - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - -

(c) *Kentuckiana Railcar Repair and Storage Facility, L.L.C.* n86 is an Indiana limited liability company that operates a railcar repair facility in Indiana.

- - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - -

n86 Jurisdiction reserved.

- - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - -

(d) *PRS International Sales Company, Inc.*, n87 a Virgin Islands corporation, is a foreign sales corporation agent for Progress Rail.

- - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - -

n87 Jurisdiction reserved.

- - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - -

(e) *Progress Rail Services de Mexico, S.A. de C.V.* n88 is a Mexican company that markets, leases and sells railcars and railcar parts in Mexico.

- - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - -

n88 Jurisdiction reserved.

- - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - -
[*146]

(f) *Progress Rail Canada Corporation* n89 is a Canadian company that supplies rail and railcar parts and maintenance-of-way equipment. It also repairs and leases railcars and locomotives.

- - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - -

n89 Jurisdiction reserved.

- - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - -

(g) *Progress Rail Holdings, Inc.* n90 is an Alabama intermediate holding company. It owns *Progress Rail Transcanada Corporation* n91 a Nova Scotia company that owns and operates a facility that repairs, manufactures and supplies railway equipment.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n90 Jurisdiction reserved.

n91 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(h) *Progress Vanguard Corporation* n92 is a Delaware corporation that repairs and leases railcar and supplies new and reconditioned rail and new and reconditioned railcar parts and maintenance-of-way equipment in several states.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n92 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -
[*147]

(i) *Railcar, Ltd.* n93 is a Georgia corporation that leases and sells railcars and manages railcar rolling stock. It has an ownership interest in *Servicios Administrativos Progress, S. de R.L. de C.V.*, a Mexican limited liability company that provides personnel and administrative services for *Servicios Ferroviarios Progress S. de R.L. de C.V.*, a Mexican holding and operating limited liability company that performs railcar repair services in Mexico in which Railcar, Ltd. also has an ownership interest. n94

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n93 Jurisdiction reserved.

n94 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(j) *Southern Machine and Tool Company* n95 is a Georgia corporation that operates a design and fabrication machine shop in Georgia.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n95 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -

(k) *United Industries, Inc.* n96 is a Kentucky corporation that operates a railcar repair facility in Kentucky.

- - - - - - - - - - - - - - - - - - -FOOTNOTES- - - - - - - - - - - - - - - - - - -

n96 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - -
[*148]

(l) *DAPCO Rail Services, L.L.C.* n97 is an Alabama limited liability company that engages in ultrasonic scanning, inspecting and testing of railway rails.

- -FOOTNOTES- - - - - - - - - - - - - - - - - - - -

n97 Jurisdiction reserved.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - - -

15. *Progress Synfuel Holdings, Inc.* n98 is a Delaware intermediate holding company with interests in the following synthetic fuel plant entities that own secondary coal recovery system facilities: n99 *Ceredo Synfuel L.L.C.; Sandy River Synfuel L.L.C.; Solid Energy L.L.C.*; and *Solid Fuel L.L.C.* n100 .

- -FOOTNOTES- - - - - - - - - - - - - - - - - - - -

n98 *See New Century Energies, supra n. 8*

n99 Rule 58(b)(1)(vi).

n100 Rule 58(b)(1)(vi).

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - - -

E. Other Passive Investments of Florida Progress

1. *Tampa Bay Devil Rays, Ltd.* Florida Progress invested $ 5 million for a limited partnership interest in the Tampa Bay Devil Rays, Ltd. ("Devil Rays"), a Florida limited partnership [*149] that in 1995 acquired a Major League Baseball franchise to play scheduled home baseball games at Tropicana Field in St. Petersburg, Florida. Florida Progress's rights as a class B limited partner are minimal, consisting primarily of rights relating to distributions in its capital account. n101

- -FOOTNOTES- - - - - - - - - - - - - - - - - - - -

n101 Proposed divestiture.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - - -

2. *PIH, Inc.* holds interests in affordable housing projects that qualify for income tax credits under Section 42 of the Code through the following entities: *American Tax Credit Corporate Fund III, L.P., Boston Capital Corporate Tax Credit Fund VII, Boston Capital Corporate Tax Credit Fund, VIII; KeyCorp Investment Limited Partnership II, Lehman Housing Tax Credit Fund, L.P., McDonald Corporate Tax Credit Fund 1996 Limited Partnership; and National Corporate Tax Credit Fund VI.* Each of these funds holds a geographically diversified portfolio of properties in the United States. Florida Progress has no involvement, directly or through any affiliate, in the development or management of the properties [*150] but is solely a passive investor. Each investment is "self-liquidating," *i.e.*, the assets wind down as the tax credits expire. Florida Progress's total investment in these entities as of June 30, 2000 is approximately $ 49.5 million. n102

- -FOOTNOTES- - - - - - - - - - - - - - - - - - - -

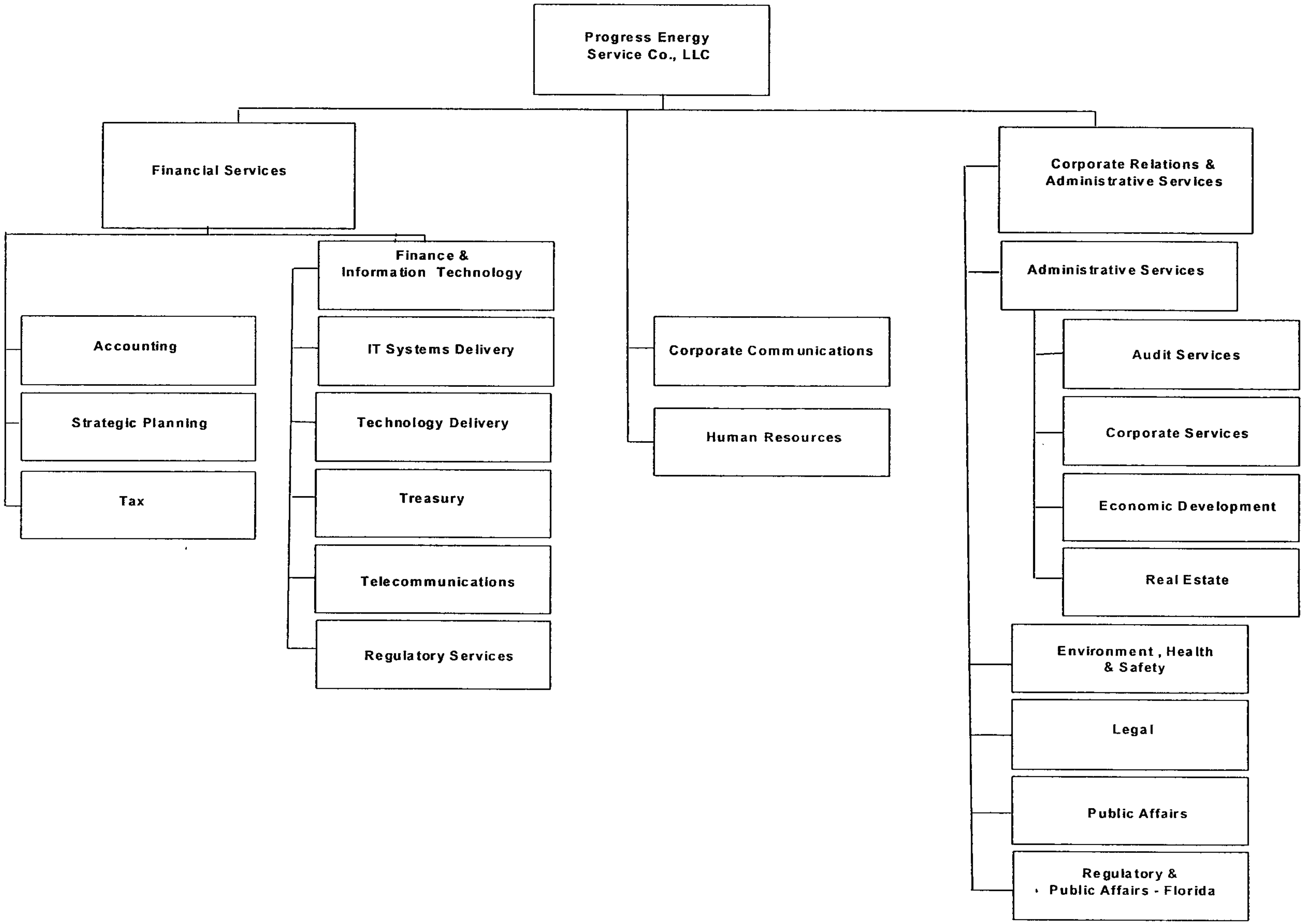
n102 *See Exelon Corp., supra n.* 13.

- - - - - - - - - - - - - - - - - - -END FOOTNOTES- - - - - - - - - - - - - - - - - - -

3. *Progress-Centrus, Inc.* is inactive.

4. *Energy Solutions, Inc.* marketed Centrus L.L.P.'s telecommunications products. This company is inactive during Centrus L.L.P.'s dissolution.

Service Company Organization Chart



Docket No. 000824-EI
Exhibit RHB-2
Witness: Robert H. Bazemore, Jr.

Docket No. 000824-EI
Exhibit RHB-3
Witness: Robert H. Bazemore, Jr.

Cost Allocation Manual

Version 1

Progress Energy Service Company

Cost Allocation Manual

Table of Contents

I. Introduction and Corporate Overview

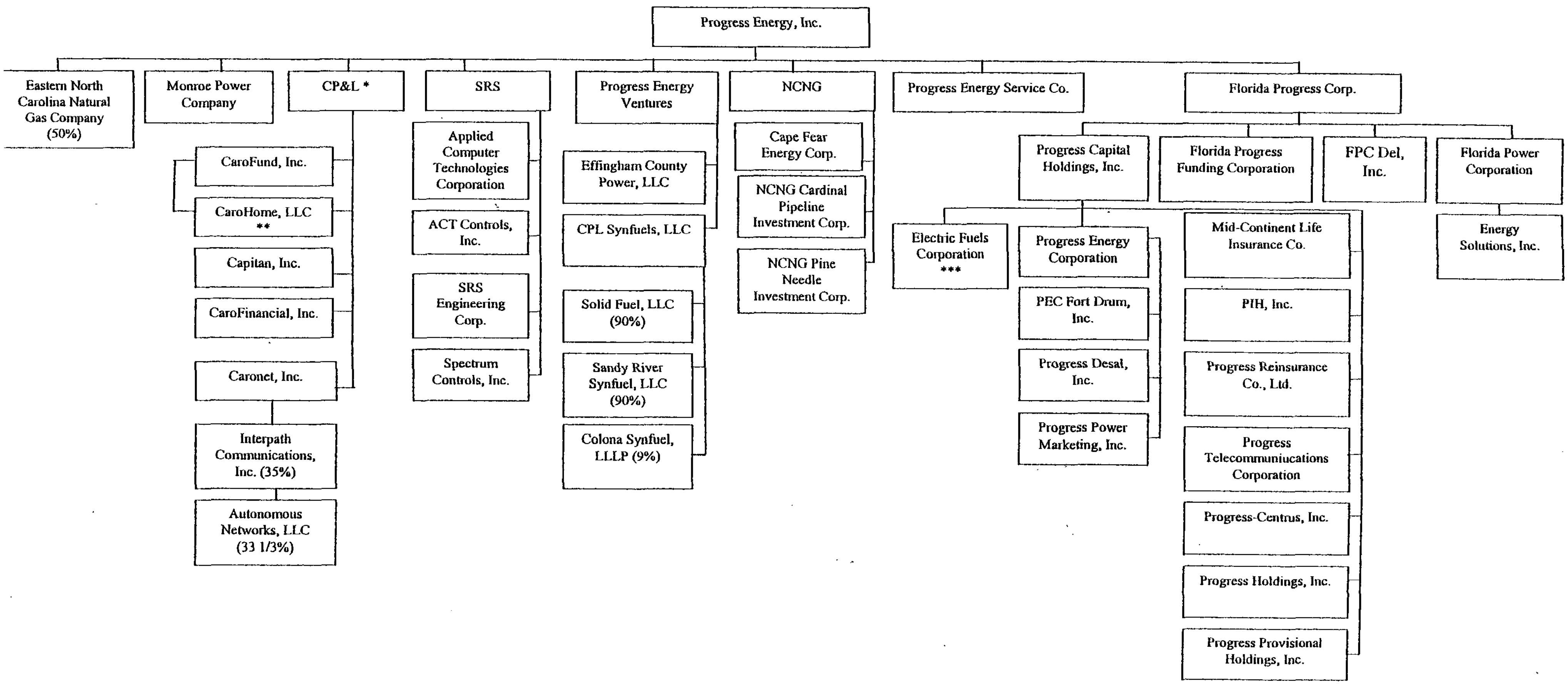
During 2000, regulatory approval was received from the NCUC, SCPSC, FERC and the SEC to establish a holding company, now known as Progress Energy. Regulatory approval was received to acquire Florida Progress Corporation located in St. Petersburg, Florida. The formation of a subsidiary service company was also a part of the regulatory approval process. Progress Energy Service Company is so organized and conducted, or to be so conducted, as to meet the requirements of Section 13(b) of the Public Utility Holding Company Act of 1935 with respect to reasonable assurance of efficient and economical performance of services or construction or sale of goods for the benefit of associate companies, at cost fairly and equitably allocated among them.

The purpose of this Cost Allocation Manual (CAM) is to provide guidelines to Company personnel involved with transactions among Progress Energy affiliates. It will help ensure these transactions are properly structured and accounted for in a way that complies with our regulatory commitments. A great deal of effort has been devoted to developing the processes and methodologies described herein. This makes clear Progress Energy's commitment to avoid preferential treatment for any subsidiary. More specifically, the entire cost allocation program has been designed to guard against subsidization of one entity at the expense of others.

This CAM has been prepared by Progress Energy Service Company for use when supplying various administrative, management, and corporate support services to the regulated and non-regulated associate companies within Progress Energy's Holding Company system. It identifies the services provided by the Service Company and the allocation methods used for distributing costs to regulated and non-regulated associates for such services in accordance with the terms of Service Agreements. This manual also includes the description of services and the allocation methods used by Utility and Associate Companies within the Holding Company system for specific shared services in accordance with the terms of Service Agreements. Progress Energy Service Company will provide the necessary accounting and procedural infrastructure to support the administration of the Service Agreements in accordance with the rules and regulations of the various regulatory authorities.

This CAM will be reviewed periodically and revised as required by changes in accounting methods, policies and procedures, services offered, and organizational structures. The cost allocation methodologies set forth herein have been designed to fairly assign costs to the appropriate user of the services provided.

II. Progress Energy, Inc.
Organization Chart - Legal Entity Structure
As of March 1, 2001



*Excludes passive investments held by CP&L in low-income housing projects, venture capital projects, enterprise development projects, etc.
** CaroHome LLC owns various interests in low-income housing and historical properties.
** Excludes subsidiaries of Electric Fuels; Progress Energy Service does not provide services to those entities.

III. Policies and Procedures Overview

This section describes the approach every Progress Energy entity must take in their dealings with associate companies. Progress Energy Service Company will be the entity which will provide the direction and oversight to ensure these policies and procedures are followed.

Objective:

Expenses that are core to a business or service are directly assigned to that business or service. Expenses of a corporate nature are cost effectively provided from a centralized organization. The goal is to ensure that the business or service generating the corporate costs pays such costs. To accomplish this, Progress Energy Service Company will comply with all applicable laws and regulations. Costs will be directly billed from the service provider to the receiving entity to the greatest extent practical. A fair and equitable allocation method will be used to distribute costs that are not directly billed. Processes and procedures will be in place to educate Progress Energy Service Company employees on how to accomplish this objective (e.g., policies and procedures posted on Progress Energy's Intranet site, systems training, information sharing meetings with budget coordinators and cost analysts, etc.).

Guiding Principles:

- Compliance with applicable rules and regulations of all regulatory agencies.
- Costs should be allocated to those who receive the benefits or cause the costs to be incurred.
- Costs should be directly billed when practical.
- Allocations should be fair, consistent, equitable and logical.
- The administrative cost to support the allocation methodology should not exceed the benefit received.

Company Reference Definitions:

- **Service Company** refers to Progress Energy Service Company as the company ***providing*** services.
- **Utility Company** refers to Carolina Power and Light Company, North Carolina Natural Gas, and/or Florida Power Corporation as the company ***providing*** services.
- **Associate Company** refers to any company within the Progress Energy Holding Company system other than the Service Company or Utility Company as the company ***providing*** services.
- **Provider Company** refers to any company within the Progress Energy Holding Company system as the company ***providing*** services.
- **Client Company** refers to any company within the Progress Energy Holding Company system as the company ***receiving*** services.

Direct Costs:

Direct costs can be specifically identified with providing a particular service or product to a Client Company. Employee labor directly billed to Client Companies will include the cost of payroll tax, benefit and exceptional hours overhead costs. Exceptional hours costs include hours spent on non-work related activities such as: vacation, holiday, sick, other hours excused, and occupational accident hours. All of the above "labor adders" on direct labor costs will be classified as direct costs. Direct costs will be charged whenever practical. For example, labor charges for a Service Company employee to perform legal services for a Client Company will be classified as a direct cost.

Indirect Costs:

Indirect costs cannot be specifically identified with providing a particular service or product to a Client Company. Employee labor allocated to Client Companies will include the cost of payroll tax, benefit and exceptional hours overhead costs. All of the above "labor adders" on indirect labor costs will be classified as indirect costs. Indirect costs will be allocated using a fair and reasonable percentage basis. For example, labor charges for a Service Company employee to perform payroll services for a Client Companies will be allocated based on headcount and classified as an indirect cost.

Infrastructure Services:

Infrastructure services are general and administrative functions that serve, and are distributed to, other Service Company departments in order to fully-load those departments with costs that support their services. These functions are dedicated to providing services that are fundamental to the operation of other functions, such as facilities expense for office space.

Service Agreements:

Progress Energy Service Company and each Client Company will enter into a Service Agreement that will set forth, in general terms, the services to be performed by each organization within Progress Energy Service Company directly for or on behalf of each Client Company. The Service Agreements will be reviewed annually, or more often if necessary. Authorized representatives of Progress Energy Service Company and the management of each Client Company have approved the Service Agreements.

Service Agreements will typically contain the following information:
Article I – Services (type and scope)
Article II – Compensation (cost and cost assignment methodologies)
Article III – Term
Article IV – Miscellaneous (accounts and records)

A listing of services offered with a description of billing allocations and methods will be included in the appendix of each Service Agreement.

Accounting System:

Progress Energy Service Company will maintain accounting systems that provide the ability to assign costs to the category of service to which they relate. The systems will also enable the costs of services to be charged directly to the Client Company for which they were performed or, when appropriate, accumulated in such a manner that they can be distributed or allocated to two or more Client Companies using an approved methodology. All necessary Client Company billing information will also be generated.

The systems are based on the use of codes to assign charges to the applicable activity, product, project, or functional basis ("Account Codes"). The account numbers conform to the Uniform System of Accounts prescribed for Public Utilities by the Federal Energy Regulatory Commission modified to include Service Company revenue accounts. The Account Codes facilitate the tracking of the cost of each service by its component costs, such as labor, materials, and outside services. The coding provides the ability to break the costs of services down by amounts directly billed to specific Client Companies (direct costs) and amounts allocated (indirect costs).

The account code segments are as follows:

- **Company** identifies a legal entity and represents the level for which a trial balance may be produced.
- **Line of Business** is a specific sub-division of the company's business such as Energy Supply and Energy Delivery.
- **Charge To** is an organization responsible for ensuring work is performed and paying for costs incurred.
- **Charge By** is an organization responsible for expending resources in the performance of work and incurs the costs of generating revenue.
- **Account** identifies a subdivision of accounts established by FERC.
- **Project** is a management-defined grouping of capital, O&M, and/or other costed work. A project is composed of one or more activities.
- **Resource Type** is the type of cost or resource used to perform an activity. Examples include labor, materials, transportation costs, etc.
- **Activity** is a unit of work performed within the organization that is meaningful and measurable.
- **Location** is a physical location serving as a cost center (e.g. a plant, generating unit).
- **Product** captures the revenue and expenses associated with producing goods or delivering services.
- **Joint Owner Accounting** code identifies whether a charge is an allocation to Power Agency based upon their ownership interest in generating facilities operated by CP&L, a direct charge to Power Agency, or a direct charge to CP&L.

Labor and labor-related costs will likely be the most significant costs that Progress Energy Service Company incurs. Accordingly, Progress Energy Service Company will maintain a time-entry subsystem that enables Progress Energy Service Company employees to accurately assign hours worked to the appropriate Account Codes. All Progress Energy Service Company employees will prepare standard timesheets or similar records that indicate the purpose of each hour worked by entering this information directly into the time-entry subsystem no later than the last pay period to which it relates. The employees' supervisor will approve the time records. Charges for labor will be made at each employee's effective hourly rate and will include the cost of pensions, employee benefits, and payroll taxes. Labor for I/T services, excluding Telecommunication services, will be charged at standard average hourly rates of all I/T employees and I/T contractors working for the Service Company. Residuals will be allocated to Client Companies based on actual hours of service.

All accounting subsystems, including accounts payable processing, were designed to support the use of the necessary Account Codes. In all cases, Progress Energy Service Company will retain the applicable underlying source documents that indicate the nature and purpose of the costs incurred.

To the extent practical, Progress Energy Service Company employees will assign costs directly to the Account Codes associated with the services rendered. The full cost of providing services also includes certain indirect costs, e.g., depreciation, interest, and taxes, which cannot be associated with specific services. Indirect costs will be associated with the services performed in proportion to the directly assigned costs of the services or other relevant cost drivers.

Progress Energy Service Company costs will be directly billed, distributed or allocated to Client Companies in the manner prescribed below.

1. Costs accumulated in Account Codes for services specifically performed for a single Client Company will be directly billed to such Client Company.

2. Costs accumulated in Account Codes for services specifically performed for two or more Client Companies will be distributed to such Client Companies using methods determined on a case-by-case basis consistent with the nature of the work performed and based on one of the approved allocation methods.

3. Costs accumulated in Account Codes for services of a general nature which are applicable to all Client Companies or to a class or classes of Client Companies will be allocated to such Client Companies by application of one or more approved allocation methods.

Billing:
Progress Energy Service will prepare and submit a bill to each Client Company for services rendered. At a minimum, the bill will itemize the cost of each service billed to the Client Company. Bills will be rendered on a monthly basis. Each Client Company shall remit to Progress Energy Service Company all charges billed to it within 30 days of receipt of the monthly billing report.

The management of each Client Company is responsible for reviewing the billing report from Progress Energy Service Company to determine the accuracy and appropriateness of the charges.

The accounting systems contain the detailed transactions supporting the services billed. Using the systems, Progress Energy Service Company will assist the Client Companies, as necessary, with the review and validation of charges. Any adjustments required will be made in the subsequent month.

Accounting Department Responsibilities:
The Accounting Department within Progress Energy Service Company will be responsible for administering, monitoring and maintaining the processes by which Progress Energy Service

Company costs are accumulated and billed to client companies. In connection with this responsibility, the Accounting Department will:

1. Coordinate the preparation of Service Agreements

2. Control the establishment and use of Progress Energy Service Company Account Codes

3. Assist Client Companies with the review and validation of charges

The Accounting Department will review all allocations used by Progress Energy Service Company annually, or more often as conditions warrant, and maintain all documentation supporting the calculations. The Accounting Department will ensure that the allocation methods are appropriate for the type of cost incurred, have been approved by the SEC and are consistent with applicable orders of state utility commissions.

Dispute Resolution:
In the event disputes arise between Progress Energy Service Company and a Client Company over amounts billed, the Accounting Department and representatives of the Client Company will attempt to resolve the issues. Unresolved disputes will be referred to Senior Management for final disposition.

Internal Review:
The Audit Services Department will conduct periodic audits of Progress Energy Service Company's administration and accounting processes. The audits will include examinations of Service Agreements, accounting systems, source documents, allocation methods and billings to determine if services are authorized and properly accounted for. In addition, Progress Energy Service Company's policies, operating procedures, and controls will be evaluated annually.

Evaluation and Measurement:
In order to encourage the efficient and cost competitive provision of services, Progress Energy Service Company will establish appropriate benchmarking measures and a customer review process. The customer review process will allow for input from the Client Companies as to the volume and value of the products and services provided by Progress Energy Service Company. This review will be part of the annual budget development process and the completion of the Service Agreements.

IV. Financial Systems & Business Model Overview

The primary information systems for accumulating costs are Oracle General Ledger and Oracle Project Accounting. Subsystems include Payroll (time and expense reporting for labor), Oracle Accounts Payable (vendor invoices), Oracle Supply Chain (material purchases), the Vehicle Maintenance System ("VMS"), and the Information Technology Services Department's ("ITSD's") billing system (REMAC).

Business Model Components

- Cost Accumulation Method

  The Integrated Oracle Financial System, Project Accounting module is used to accumulate costs related to a work request (Project). This model will provide proof of cost accumulation for reimbursable work performed for the benefit of the Client Company. Provider Company costs will be collected and segregated by unique Product Codes, as part of the General Ledger Account Key. The Product Code becomes the key cost accumulator mechanism. Product Codes define the actual services provided. Allocation metrics are defined for each Product Code.

- Cost Distribution Methods

  The model of cost distribution is commonly referred to as 'Work Order Billing'. Three cost distribution methods are briefly described as follows:

  1) Direct Project Billed (DPB) costs will be directly *transferred from a Provider Company owned project to a Client Company project.* The DPB cost distribution method requires two projects to be defined, a sending project/task and a receiving project/task. A Client Company will typically own the receiving project/task. An example of this would be "I/T Application Maintenance"- Provide application support services for CP&L. I/T will charge a Service Company project that is linked to a CP&L project for the application that I/T manages.

  2) Direct Assignment costs will be *transferred from a Provider Company owned project to a Client Company,* because the costs can be identified with a specific target receiving organization; all costs collected will be transferred to the single target receiving organization. An example of this would be "HR-NCNG" – Provide HR services for NCNG employees. HR will charge a Service Company project that is billed 100% to NCNG.

  3) Indirect Allocations costs will be *transferred from a Provider Company owned project to multiple receiving Client Companies*, because the total cost cannot be identified with a specific single receiving organization. An example of this would be "Payroll" – Provide payroll processing services. Payroll will charge a Service Company project that is allocated to all participating companies based on headcount of each company.

Business Model Applications

The new cost distribution methods will need to support two business processes: Shared Services of the Service Company ***(as described above)*** and Shared Services of the Utility Company or Associate Company. The differences are summarized below:

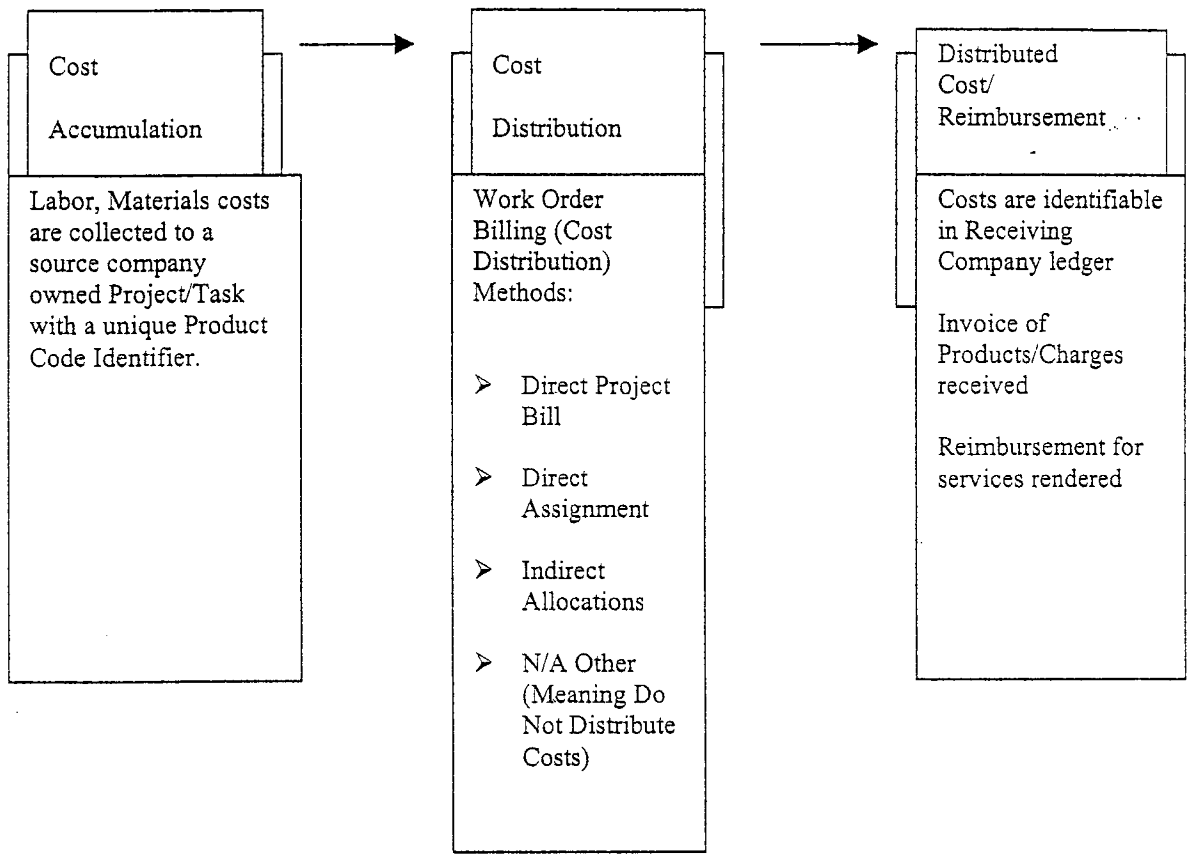
Shared Services of the Service Company:

- Business process focuses on transfer/reimbursement of Service Company costs/expenditures to Client Companies.
- All Service Company costs/expenditures must be 100% distributed.

Shared Services of the Utility Company or Associate Company:

- Business process focuses on the transfer/reimbursement of costs/expenditures of shared services between Utility or Associate Companies and Client Companies where the provider of the services is not the Service Company.
- Only the costs ***associated with the shared service*** are required to be distributed at fully loaded cost.

Business Model



Business Model can be used for the following:

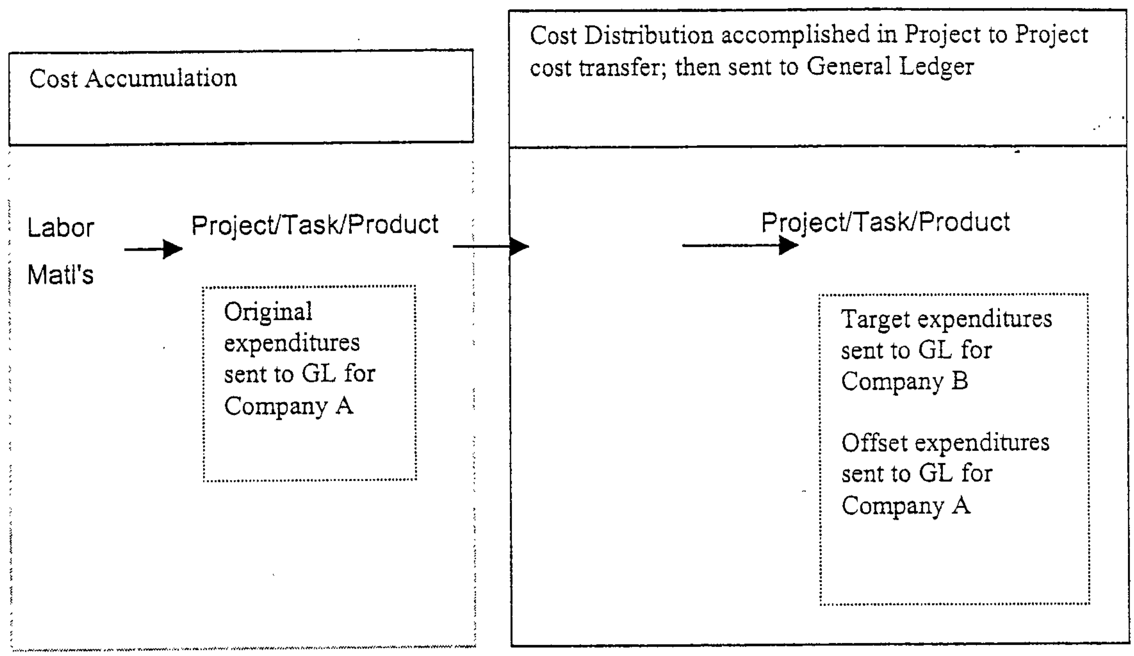
Service Company to Client Company

Utility Company to Client Company

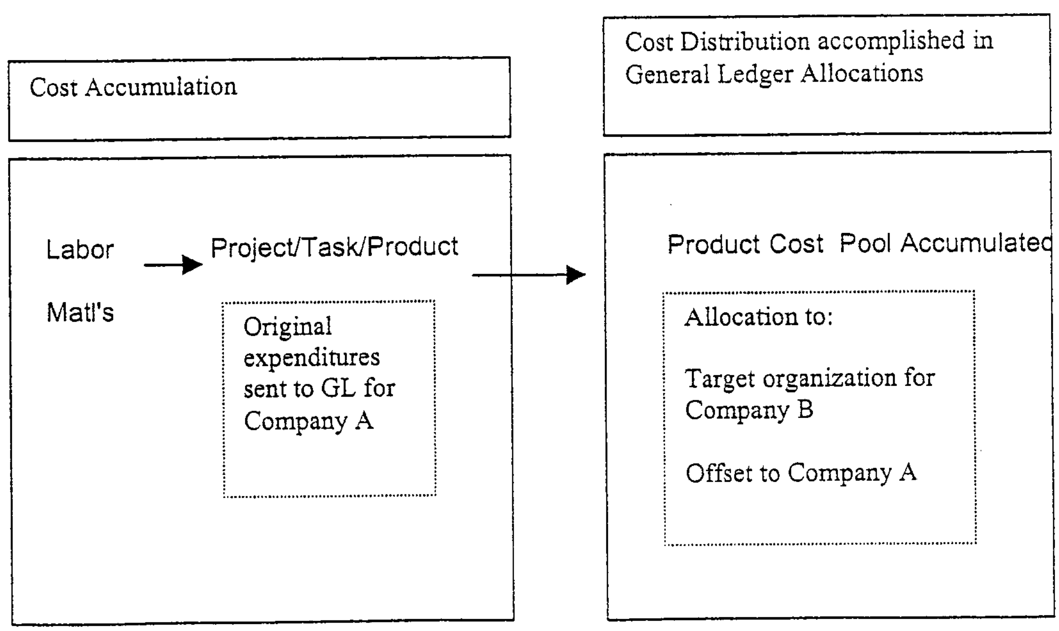
Associate Company to Client Company

Cost Distribution Methods

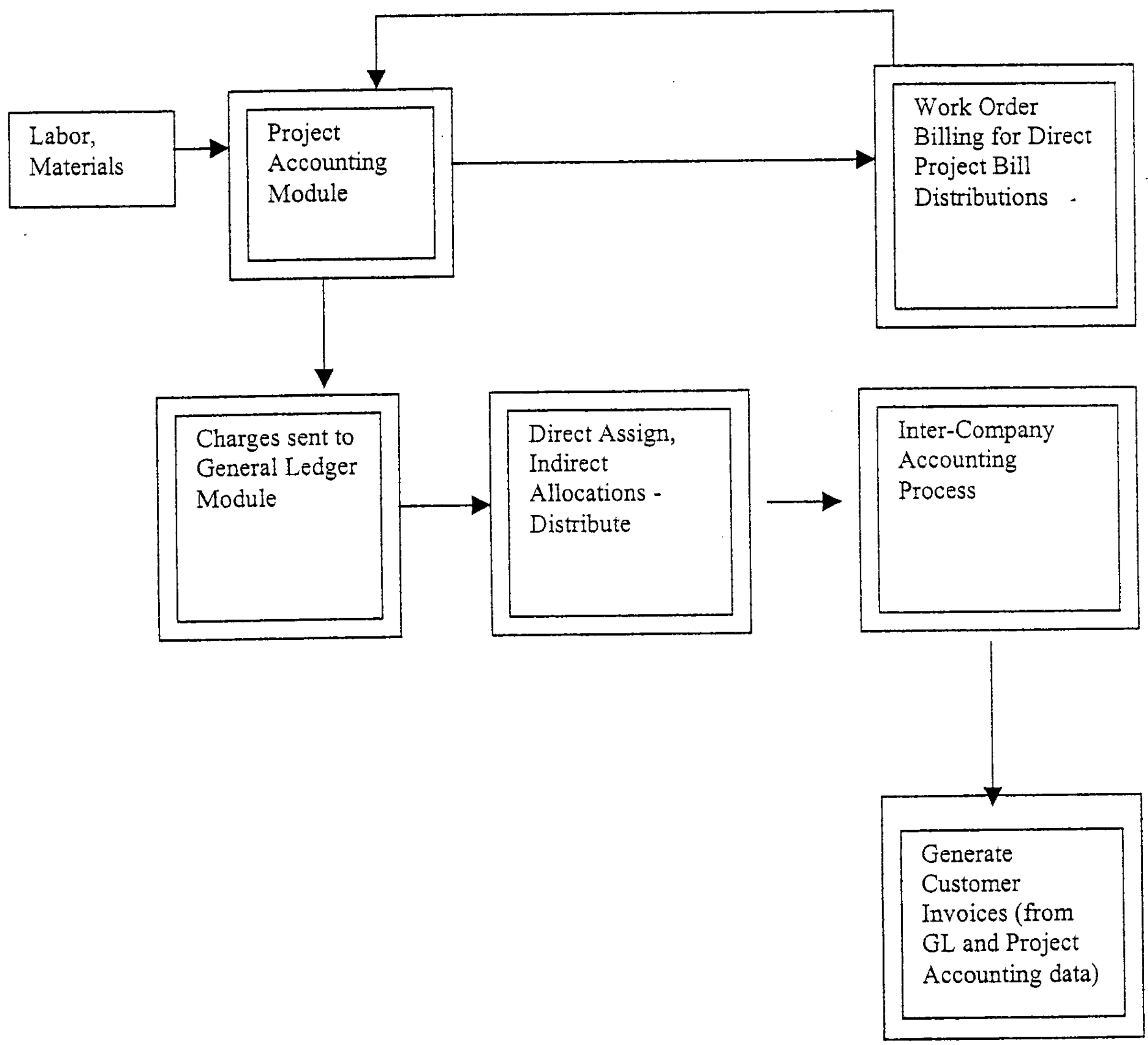
Direct Project Bill



Direct Assignment and Indirect Allocations



Work Order Billing Process (High Level)



V. Cost Allocation Methodologies

A. Corporate Allocations

The following clearing accounts have been defined to accumulate various common costs that are general in nature and allocated to the appropriate organizations on a monthly basis. Each allocation pool is split into 8 major resource types to identify Employee Labor, Outside Labor, Materials, Revenue, Fuel, Payroll Taxes, Benefits and Other costs. Generally, each pool is allocated via a pre-determined percentage to each target organization within the legal entity.

1. Fossil Fuel Administration

Account: 18400YD

Description: This clearing account is used to accumulate all charges related to Fossil Fuel technical and administrative support by Fossil Fuel employees that do not charge their labor costs directly to other organizations. The sole responsibility of this department is to provide administrative support and address the business needs of the Fossil Plant Sites. These costs are considered indirect costs that cannot be charged directly to others.

Activity: X0079

Method: This clearing account is allocated via percentage based on each recipients budget power estimate to the total budgeted power estimate.

2. Turbine Support Indirect

Account: 18400WV

Description: Clearing account 18400WV is used to accumulate all charges incurred by employees of the Fossil Generation Department, Turbine Generator Services Section that do not charge their labor costs directly to other organizations.

Activity: X0052

Method: Allocations are made to the Fossil and Nuclear plants based on the amount of direct labor charged to these facilities. Percentages to each plant are determined by the POG Business and Finance group.

3. **FGD Indirects to Fossil Plants**

Account: 18400WE
Description: This account is used to accumulate all charges incurred by Fossil Generation Department general office employees for administrative and business needs support for Fossil and Hydro plants that are not charged directly.
Activity: X0057
Method: The basis for determining the allocation is unit capacity. Each plant's total capacity is divided into the total system capacity to determine the appropriate percentage.

4. **Combustine Turbine Indirect**

Account: 18400CT
Description: This account accumulates general administrative and management costs incurred in the Carolinas CT Operations group that cannot be directly charged to a specific location.
Activity: X0188
Method: Costs are allocated based on an estimate of the level of support.

5. **CT Combined Co Clearing**

Account: 18400CC
Description: This account accumulates general administrative and management costs incurred in the Combined CT Operations group that cannot be directly charged to a specific location.
Activity: X0189
Method: Costs are allocated based on an estimate of the level of service.

6. **FGD Department Staff Clearing**

Account: 1840FGD
Description: This account accumulates general administrative and management costs incurred in the Fossil Generation Department group that cannot be directly charged to a specific location.
Activity: X0701
Method: The basis for determining this allocation is level of support, determined by the POG Business and Finance group.

7. Technical Services Department

Account: 1840TSD
Description: This account accumulates all charges incurred by FGD Technical Services Department for technical support for Fossil, Hydro and ICT plants that are not charged directly.
Activity: X0702
Method: The basis for determining the allocation is unit capacity. Each plant's total capacity is divided into the total system capacity to determine the appropriate percentage.

8. Gas Supply and Transportation-Plants

Account: 18400GS
Description: Account 18400GS has been defined to accumulate all costs that involve the activity of gas supply and transportation that cannot be directly charged. These costs are allocated to the various locations that use gas with internal combustion turbines.
Activity: X0183
Method: The percentages used for the allocation are based on the generation capacity for each applicable location.

9. Oil Trading

Account: 18400OL
Description: This account accumulates charges incurred in the management and oversight of the Energy Ventures Business Unit for oil trading activities.
Activity: X0210
Method: These costs are allocated to Fossil generating plants based on projected oil usage.

10. Energy Supply-Executive

Account: 1840CAA
Description: This account accumulates costs incurred for the management and oversight of the Energy Supply Business Unit.
Activity: X0016
Method: Costs are allocated based on generation capacity.

11. Carolina Power Ops Finance

Account: 18400WI
Description: This account accumulates finance and administrative costs incurred in support of the fossil plants by the Carolina Power Operations Finance organization.
Activity: X0054
Method: Costs are allocated to the fossil units based on an estimate of the level of support.

12. NED Supervisor Indirect Costs

Account: 18400WG
Description: This account accumulates general supervisory costs incurred by the Nuclear Engineering Department head and staff in support of the nuclear plants.
Activity: X0056
Method: Costs are allocated to the nuclear plants based on generation capacity.

13. PERA Supervisor Indirect Costs

Account: 18400WF
Description: This account accumulates general supervisory costs incurred by the Performance Evaluation and Regulatory Affairs organization of the Nuclear Generation Group in support of the nuclear plants.
Activity: X0058
Method: Costs are allocated to the nuclear plants based on generation capacity.

14. Nuclear Business Operations

Account: 18400WJ
Description: This account is used to accumulate all costs incurred in the Nuclear Business Operations group in support of the nuclear plants.
Activity: X0059
Method: Costs are allocated to the nuclear plants based on generation capacity.

15. NED-Nuclear Fuel Admin Costs

Account: 18400WM
Description: This account is used to accumulate all charges incurred for nuclear fuel labor and miscellaneous costs by the Administration organization of the Nuclear Engineering Department in support of the nuclear plants.
Activity: X0060
Method: Costs are allocated to the nuclear plants based on generation capacity.

16. NED-MDC 520

Account: 18400WD
Description: This account is used to accumulate general costs incurred by the Fuels Section of the Nuclear Engineering Department in support of the nuclear plants.
Activity: X0061
Method: Costs are allocated to the nuclear plants based on generation capacity.

17. Nuclear Management

Account: 18400WK
Description: This account accumulates nuclear management costs incurred by the Chief Nuclear Officer that are not directly chargeable to other departments.
Activity: X0062
Method: Costs are allocated to the nuclear plants based on estimated levels of support.

18. NIT Supervisor Indirect Costs

Account: 18400WL
Description: This account accumulates general supervisory costs incurred by the Nuclear Information Technology department in support of the nuclear plants.
Activity: X0063
Method: Costs are allocated to the nuclear plants based on generation capacity.

19. HNP-Spent Fuel Unload/Storage

Account: 18400WR
Description: This account is used to accumulate costs incurred by employees of the Harris Nuclear Plant in the unloading and storage of spent fuel for the Brunswick and Robinson Nuclear Plants.
Activity: X0064
Method: Costs are allocated equally to each nuclear generating unit.

20. ES-Finance and Administrative Services

Account: 18400WO
Description: This account accumulates general finance and administrative costs incurred by the Energy Supply Finance and Administration Services group.
Activity: X0065
Method: Costs are allocated to the Nuclear Generation Group and Power Operations Group based on total generation capacity.

21. HNP-Receive Shipments

Account: 18400WN
Description: This account is used to accumulate costs incurred by employees of the Harris Nuclear Plant in the receiving of spent fuel for the Brunswick and Robinson Nuclear Plants.
Activity: X0084
Method: Costs are allocated to each generating unit based on shipment received.

22. **NSD-Nuclear Material Control**

Account: 18400WY
Description: This account is used to accumulate costs incurred by employees of the Nuclear Materials Services organization for administrative support of material controls for the nuclear plants.
Activity: X0064
Method: Costs are allocated to each nuclear plant based on generation capacity.

23. **TS Environmental Services**

Account: 18400XY
Description: This account accumulates indirect charges incurred by employees of the Environmental Services Section of the Technical Services Department.
Activity: X0156
Method: Costs are allocated to Energy Supply, Energy Delivery, NCNG and FPC based on an estimate of the level of service.

24. **NSD-MDC 520**
Account: 18400YW
Description: This account is used to accumulate costs incurred by the Radiological Labs Unit of the Nuclear Services Department in support of the nuclear plants.
Activity: X0160
Method: Costs are allocated to each nuclear plant based on generation capacity.

25. **NSD Labs/Analytical Services**

Account: 18400TJ
Description: This account accumulates costs incurred by the Materials Services Section, Analytical Chemistry Unit
Activity: X0172
Method: Costs are allocated to Energy Supply and Energy Delivery based on an estimate of the level of service.

26. **POG Systems Planning**

Account: 18400WH
Description: This account accumulates costs incurred by the Systems Planning organization of the Power Operations group.
Activity: X0053
Method: Costs are allocated to the appropriate Energy Supply department based on generation capacity.

27. **Timber-Regulated-Wholly Owned Utility Land**

Account: 18400TB
Description: This account is used to accumulate costs incurred in conjunction with managing the company specific timber activities.
Activity: B4324
Method: Costs are allocated 100% to account 4560001 to properly classify these charges.

28. **Timber-Regulated-Joint Owned Utility Land**

Account: 18400AD
Description: This account is used to accumulate costs incurred in conjunction with managing joint-owned plant specific timber activities.
Activity: X0141/X0142/X0143
Method: Costs are allocated to each of the plant specific timber projects and split between accounts 253720T and 4560001.

29. **Engineering Support-O&M**

Account: 18400OE
Description: This account accumulates costs incurred by the Distribution Engineering and Operations Department in support of the Distribution Regions.
Activity: X0270
Method: Costs are allocated to each Distribution Region based on an estimate of the level of support.

30. **TDS Admin OH**

Account: 18400PA
Description: This account accumulates administrative costs incurred by the Transmission and Distribution Services group.
Activity: X0370
Method: Costs are allocated to the T&D groups based on an estimate of the level of support.

31. **Wholesale Power Non-Reg BTL**

Description: This allocation reclasses a portion of the costs incurred by the Wholesale Power group to account 417.
Method: Costs are allocated based on head count of the Wholesale Power group performing non-regulated activities.

Construction Work In Progress ("CWIP") Indirect Overhead Allocations:

The indirect costs of CWIP are construction-related costs not directly assignable to specific projects. These costs are accumulated in several pre-assigned projects for general construction overheads. These costs include, for example, salaries (secretarial, engineering and other), office supplies, meals and travel, telephone and telegraph service, professional membership fees and dues, postage, computer services, employee moving expenses, consultants' charges, other outside services, employee educational benefits, research and development, rents, miscellaneous general expense, industry association dues, construction site security, construction site safety and medical, etc. In general, salaries (including payroll overheads and the employee benefit items, listed above) are allocated between expense and capital on the source transaction (time sheets) based on analysis of the functions performed by the employee or his organization unit. Still others (such as rents and telephone and telegraph costs) tend to follow the expense versus capital distribution of labor associated with the organizational unit. Still others (such as research and development and charges by outside consultants) tend to be allocated between expense and capital accounts on the basis of case-by-case analysis. In addition to the above, the cost of operating material stores is accumulated in pre-assigned projects. These costs are allocated to each department's construction projects based on a preset percentage established by the business units during the budgeting process. Each nuclear site has one pre-assigned project # for the cost of operating stores and one project for the material control charges. Each fossil site, Distribution, Engineering and Operations ("DE&O") region, and Transmission have one pre-assigned project # for the cost of operating stores. None of the indirect overhead projects accumulate AFUDC.

The following table is a listing of all Capital Indirect Overhead Projects:

Work Order	Description	Allocation Basis
00100084	Asheville Fossil Unit #1 Building	Company Labor
00100092	Blewett Hydroelectric Unit #1	Company Labor
00100085	Cape Fear Fossil Unit #5	Company Labor
00100095	Darlington ICT Turbine	Company Labor
00100011	Harris Ind Eng & Gen	Company & Contr Labor
00100013	Brunswick Ind Eng & Gen	Company & Contr Labor
00100014	NGG Stores Blanket – HNP	Material
00100016	NGG Stores Blanket – BNP	Material
00100017	NGG Matl Control Exp - HNP	Material
00100019	NGG Matl Control Exp - BNP	Material
00100020	Stores Blanket for Cape Fear	Material
00100025	Stores Blanket for Roxboro	Material
00100056	Distribution - Northern Region Ind	Company & Contr Labor
00100057	Distribution - Eastern Region Ind	Company & Contr Labor
00100059	Distribution - Western Region Ind	Company & Contr Labor
00100060	Stores Blanket - Transmission	Material
00100061	Stores Blanket - Northern Region	Material
00100062	Stores Blanket - Eastern Region	Material

00100064	Stores Blanket - Western Region	Material
00100065	Stores Blanket- Corp Svcs	Material
00100067	Stores Blanket - ITSD	Material
00100076	Transmission Ind Eng & Gen OH	Company & Contr Labor
00100077	Transmission Ind Eng & Gen OH	Company & Contr Labor
00100078	Transmission Ind Eng & Gen OH	Company & Contr Labor
00100081	Transmission Ind Eng & Gen OH	Company & Contr Labor
00100082	Transmission Ind Eng & Gen OH	Company & Contr Labor
00100083	Transmission Ind Eng & Gen OH	Company & Contr Labor
00100012	Nuclear - Robinson Ind Eng & Gen	Company & Contr Labor
00100015	NGG Stores Blanket - RNP	Material
00100058	Distribution - Southern Region Ind	Company & Contr Labor
00100063	Stores Blanket - Southern Region	Company & Contr Labor
00100086	Fossil Gen Tech Support IOH	Company Labor
00100087	Mayo Fossil Unit #1 Building	Company Labor
20010418	Distribution Engineering Oper IOH	Company & Contr Labor
20010419	Distribution Engineering Oper IOH	Company & Contr Labor
20010420	Distribution Engineering Oper IOH	Company & Contr Labor
20010421	Distribution Engineering Oper IOH	Company & Contr Labor
00100088	Robinson Fossil Unit #1	Company Labor
00100089	Roxboro Fossil Unit #4 Building	Company Labor
00100090	Sutton Fossil Unit #1 Building	Company Labor
00100093	Walters Hydroelectric Unit #1 Bldg	Company Labor
00100091	Weatherspoon Fossil Unit #1 Bldg	Company Labor

B. Corporate Adders

Each Company will have its own pool of dollars for each of the following corporate adders for cost accumulation and distribution **within** each company. Therefore, the adder rate will vary by Company.

1. Exceptional Hours

Exceptional hours are employee labor hours that are not chargeable to productive projects. Examples of these include vacation, sick, excused time, jury duty, etc. These hours are not directly charged to real projects and represent additional costs of labor. The exceptional hours costs are an estimated amount and are recorded as a percentage adder to base labor. The exceptional hours adder rate is set at the beginning of each budget year and is adjusted on an annual basis. One adder rate is applied per company.

The exceptional hours adder is recorded as a labor expense to each company and is charged to the same account/project as the original base labor charge. The offset is against a general exceptional hours clearing account (18400EX) recorded for each company. As actual exceptional hours are incurred, the cost is debited to a single exceptional hours project for each company, reducing the balance in the 18400EX clearing account.

At year end, any residual balance that exists in the 18400EX clearing account is distributed back within each respective company to the applicable business units based on actual labor dollars incurred.

2. Benefits

Company benefits costs are incurred on active and retiree employees for health care, life insurance, pensions and stock purchases. These costs are considered indirect costs that cannot be charged directly to others. The employee benefits costs are an estimated amount and are recorded as labor dollars are incurred as a percentage adder. The employee benefit adder percentage is set at the beginning of each budget year and is adjusted on an annual basis. One adder rate is applied per company.

The benefits adder is recorded as a benefits expense to each company and is debited based on the nature of the project to which the original labor is charged. For O&M projects, the benefits expense is recorded to account 926; for capital projects, the benefits expense is recorded to account 107. For stores projects, the benefits expense is recorded to account 163. For clearing account projects, the benefits expense is recorded to the appropriate 184 account. The offset is a general benefits clearing account (18400WA).

Once the benefits adder has been properly recorded to the General Ledger, an allocation is performed to redistribute the adder amount to benefit-specific clearing accounts listed below:

18400YH	Employee Health Care
18400YK	Employee Life

18400YJ	Retiree Health Care
18400YV	Salary Continuation
18400YU	Health/Life Continuation
18400YM	Pensions
18400YN	Stock Purchases

This allocation is based on budgeted amounts for each specific adder for each company.

Actual employee health and life costs are recorded to the 18400YH and 18400YK clearing accounts for each company based on headcount.

Actuarial studies, combined with the budgeted amounts, are used to determine the dollar amounts redistributed for each company from the clearing accounts to the appropriate reserve account for retiree health/life, salary continuation, health/life continuation, pensions and stock purchases. As actual costs are incurred, they are applied against the reserve accounts based on headcount.

Any residuals remaining in the clearing accounts or reserve accounts are cleared to account 926 at the end of the year.

3. Payroll Taxes

Company payroll taxes are incurred for FICA and Unemployment taxes. A percentage adder is applied to all base and overtime labor to record the estimated tax costs. The payroll taxes adder percentage is set at the beginning of each budget year and is adjusted on an annual basis. One rate is applied for all companies.

The payroll taxes adder is recorded as an expense to each company and is debited based on the nature of the project to which the original labor is charged. For O&M projects, the payroll tax expense is recorded to account 4081; for capital projects, the payroll tax expense is recorded to account 107. The offset is a general payroll tax clearing account (18400WB).

As actual payroll taxes are incurred, the amounts are redistributed from the 18400WB clearing account to the appropriate tax liability account for each type of tax. Any residual amount in this clearing account at year-end is distributed back to account 4081.

4. Stores Adders

Stores costs include the supervision, labor and other expenses incurred in the operation of general and location storerooms, including purchasing, storage, handling and distribution of materials and supplies. As materials are ordered and issued, a rate is applied as a percentage adder to the material cost to allocate these general storeroom costs. adder rates are determined at the beginning of each budget cycle and can be changed throughout the year depending upon analysis of residual balances.

There are two different stores adders that are applied, corporate and locational. Corporate adders are applied to all company material costs to account for the expenses incurred related to corporate materials services. A single rate is applied for each company.

Locational adders are applied to material costs for expenses incurred related to specific locational storerooms and services. Rates vary for each specific location and are applied based on the location performing the work.

As stores adders are applied, they are debited to the same account as the original material charge. The offset is to account 1630002 for corporate stores and accounts 1630003 and 1630004 for locational stores. Differentiation between the locational stores pools is determined based on a separate resource type and activity.

As actual stores expenses are incurred for supervision, labor and other costs, they are debited to the applicable stores adder pool. Any residual balance in the stores adder pools at year-end is redistributed to the appropriate organizations based on yearly material cost.

C. Service Company Allocations and Metrics

The following ratios and allocation metrics shall be applied to allocate costs accumulated on work orders for identified products and services. A review and update schedule is indicated for each metric; however, metrics will be reviewed continually and rates revised as required by changes in accounting methods, policies and procedures, services offered, and organizational structures.

Average Hourly Rate
A ratio, the numerator of which is the variable costs of aircraft expenses and the denominator of which is the total hour usage of all Client Companies. This rate will be revised and expenses trued-up annually, based on figures as of December 31.

Benefits Adders
A ratio, the numerator of which is the employee benefits expenses for each Client Company and the denominator is the raw labor dollars of each Client Company. Since each Client Company will have its own benefits adder pool of dollars; its collection of employee benefit expenses, that will be distributed by that Client Company's total labor dollars, it is expected that the adder rate may vary by Client Company. The benefit adder pools will be analyzed quarterly, based on year-end projected figures as of March 31, June 30, September 30 and December 31. The purpose of the quarterly analysis is to determine if (1) the adder rates should be revised or (2) an adjusting entry should be made to ensure that the pool is completely allocated by year-end.

Circuit Count Ratio
A ratio, the numerator of which is the number of telecommunication circuits of a Client Company and the denominator of which is the number of telecommunication circuits of all the Client Companies. For each fiscal year,

- The ratio is calculated using counts estimated during the budget cycle for such year,
- Each Client Company is charged a fixed monthly fee determined by multiplying estimated costs by the ratio for such Company and dividing by 12,
- The ratio and associated monthly fees are adjusted when actual counts vary significantly from estimated counts,
- Residual costs are allocated in the same proportions as the fixed monthly fees including adjustments, and
- Residual costs may be allocated at intervals during the fiscal year, but final allocations are made at the end of such year.

Corporate Common Stores Adders
A ratio, the numerator of which is the total Corporate Common Stores expenses (including purchasing, investment recovery, inventory planning and analysis, supplier diversity, accounts payable, and materials systems expenses) and the denominator of which is the raw material dollars of all "Oracle based" Client Companies within the Holding Company system for which the Service Company provides material related services. This adder pool will be analyzed quarterly, based on year-end projected figures as of March 31, June 30, September 30 and December 31, to determine if (1) the adder rates should be revised or (2) an adjusting entry should be made to ensure that the pool is completely allocated by year end.

Energy Delivery Locational Stores Adders
A ratio, the numerator of which is the total Garner Warehouse expense (including warehousing, distribution, and inventory management) and the denominator of which is the raw material dollars of the Energy Delivery business unit. This adder pool will be analyzed quarterly, based on year-end projected figures as of March 31, June 30, September 30 and December 31, to determine if (1) the adder rates should be revised or if (2) an adjusting entry should be made to ensure that the pool clears out by year end.

FTE's Assigned Ratio
A ratio, the numerator of which is the number of hours a full-time employee is assigned to a Client Company and the denominator of which is the number of hours full-time employees are assigned to all Client Companies. This ratio will be revised semi-annually, based on figures as of June 30 and December 31.

Headcount Ratio
A ratio, for infrastructure costs, the numerator of which is the headcount of the Service Company department and the denominator of which is the headcount of all the Service Company departments. A ratio, for non-infrastructure costs, the numerator of which is the headcount of a Client Company and the denominator of which is the headcount of all the Client Companies. This ratio will be revised quarterly, based on figures as of March 31, June 30, September 30 and December 31.

Historical Claims Ratio
A ratio, the numerator of which is the historical claims incurred by a Client Company and the denominator of which is the historical claims incurred by all Client Companies. This ratio will be revised semi-annually, based on figures as of June 30 and December 31.

Global Ratio
A ratio, the numerator of which is the actual expenses charged to a Client Company and the denominator of which is the actual expenses charged to all Client Companies participating in a group of related services. This ratio will be revised semi-annually, based on figures as of June 30 and December 31.

Information Technology Application Index Ratio
A ratio, the numerator of which is the index value of each business software application of a Service Company Department or a Client Company and the denominator of which is the index value of each business software application of all Service Company Departments and Client Companies. The index value for each business software application is derived from the application's resource and service requirements. For each fiscal year,

- The ratio is calculated using values estimated during the budget cycle for such year.
- Each Service Company Department and Client Company is charged a fixed monthly fee determined by multiplying estimated costs by the ratio for such Company and dividing by 12,
- The ratio and associated monthly fees are adjusted when actual index values vary significantly from estimated counts,

- Residual costs are allocated in the same proportions as the fixed monthly fees including adjustments, and
- Residual costs may be allocated at intervals during the fiscal year, but final allocations are made at the end of such year.

Information Technology Distributed Cost Ratio

A ratio, the numerator of which is the IT costs distributed to a Service Company Department or a Client Company and the denominator of, which is the IT costs excluding IT applications development and enhancement charges distributed to all Service Company Departments and Client Companies. For each fiscal year,

- The ratio is calculated using values estimated during the budget cycle for such year.
- Each Service Company Department and Client Company is charged a fixed monthly fee determined by multiplying estimated costs by the ratio for such Company and dividing by 12,
- The ratio and associated monthly fees are adjusted when actual distributed costs vary significantly from estimated,
- Residual costs are allocated in the same proportions as the fixed monthly fees including adjustments, and
- Residual costs may be allocated at intervals during the fiscal year, but final allocations are made at the end of such year.

Information Technology Standard Labor Rate

A ratio, the numerator of which is the direct salary and associated adders (payroll taxes, benefits, exceptional hours) for employees plus the fees for contract personnel, and the denominator of which is the hours worked for all Service Company Departments and Client Companies. For each fiscal year:

- The rate is calculated using costs and counts estimated during the budget cycle for such year,
- Each Service Company Department and Client Company is charged at the standard rate for each hour worked, or actual costs if the cost of the resources required to perform the work differs significantly from the cost of the resources included in the standard rate,
- Residual costs are allocated using a ratio, the numerator of which is the actual hours charged to a Service Company Department or Client Company and the denominator of which is the actual hours charged to all Service Company Departments and Client Companies.
- Residual costs may be allocated at intervals during the fiscal year but final allocations of residual costs are made at the end of such year.

Information Technology Standard Headcount Rate

A ratio, the numerator of which is the cost of providing a service and the denominator of which is the number of persons of all Service Company Departments and Client Companies. For each fiscal year,

- The rate is calculated using costs and counts estimated during the budget cycle for such year.
- Each Service Company Department and Client Company is charged a fixed monthly fee determined by multiplying the rate and the estimated person count for such Department or Company and dividing by 12,
- The ratio and associated monthly fees are adjusted when actual counts vary significantly from estimated counts,

- Residual costs are allocated in the same proportions as the fixed monthly fees including adjustments, and
- Residual costs may be allocated at intervals during the fiscal year, but final allocations are made at the end of such year.

Information Technology Standard Personal Computer Count Rate

A ratio, the numerator of which is the cost of providing a service and the denominator of which is the number of personal computers of all Service Company Departments and Client Companies. For each fiscal year,

- The rate is calculated using costs and counts estimated during the budget cycle for such year.
- Each Service Company Department and Client Company is charged a fixed monthly fee determined by multiplying the rate and the estimated personal computer count for such Department or Company and dividing by 12,
- The ratio and associated monthly fees are adjusted when actual counts vary significantly from estimated counts,
- Residual costs are allocated in the same proportions as the fixed monthly fees including adjustments, and
- Residual costs may be allocated at intervals during the fiscal year, but final allocations are made at the end of such year.

Invoice Ratio

A ratio, the numerator of which is the number of invoices of a Client Company and the denominator of which is the number of invoices of all the Client Companies. This ratio will be revised quarterly, based on figures as of March 31, June 30, September 30 and December 31.

Labor Dollars Ratio

A ratio, the numerator of which is the labor dollars of a Client Company and the denominator of which is the labor dollars of all the Client Companies. This ratio will be revised quarterly, based on figures as of March 31, June 30, September 30 and December 31.

Miles and Hours of Usage Allocation Metric

For fleet and transportation costs, all vehicles are tracked by vehicle number, vehicle class and ownership using a Vehicle Management System ("VMS"). Each vehicle class is assigned a usage factor (e.g. cost per mile or cost per hour). Miles driven and hours used are tracked for each vehicle driven. The VMS calculates the amount to charge the organization based on the usage entered, the usage factor for that class of vehicles and the owner of the vehicle. Usage rates are analyzed and adjusted annually or when unusual circumstances warrant an analysis. (e.g., significant increase in fuel prices.)

Modified Massachusetts Formula Ratio

The modified Massachusetts formula is a residual allocation method utilized when no direct or other reasonable cost-benefit relationship can be determined. The formula measures two equally weighted factors to arrive at an allocation percentage for each Client Company:

$$\left(\frac{\text{Client Company's Labor Dollars}}{\text{All Client Companies' Labor Dollars}} + \frac{\text{Client Company's Undepreciated Capital Assets}}{\text{All Client Companies' Undepreciated Capital Assets}}\right) / 2 = X\%$$

This ratio will be revised quarterly, based on figures as of March 31, June 30, September 30 and December 31.

Number of Vehicles Managed Ratio
A ratio, the numerator of which is the number of vehicles managed for a Client Company and the denominator of which is the number of vehicles managed for all the Client Companies. This ratio will be revised semi-annually, based on figures as of June 30 and December 31.

Payroll Tax adder
Each labor dollar incurred will have an additional adder to reflect a prorated portion of the payroll taxes. There will be distinct payroll tax pools representing each Service and Client Company's payroll tax expense. Payroll tax adder amounts will be created based on applying a percentage rate to base and overtime labor. There will be one rate per Service and Client Company based on individual company pools as a ratio to each company's labor.

Prior Year Usage Ratio
A ratio, the numerator of which is the actual prior year usage of a Client Company and the denominator of which is the actual prior year usage of all Client Companies. This ratio will be revised semi-annually, based on figures as of June 30 and December 31.

Square Footage Ratio
A ratio, for infrastructure costs, the numerator of which is the square footage of the Service Company departments or a client company and the denominator of which is the square footage of all Service Company and Client Company departments. A ratio, for non-infrastructure costs, the numerator of which is the actual square footage of a Client Company and the denominator of which is the actual square footage of Client Companies benefiting from the service. This ratio will be revised semi-annually, based on figures as of June 30 and December 31.

Undepreciated Assets Ratio
A ratio, the numerator of which is the undepreciated assets of a Client Company and the denominator of which is the undepreciated assets of all the Client Companies. This ratio will be revised quarterly, based on figures as of March 31, June 30, September 30 and December 31.

D. Utility and Associate Companies Allocations and Metrics

The following ratios and allocation metrics shall be applied to allocate costs accumulated on work orders for identified products and services. A review and update schedule is indicated for each metric; however, metrics will be reviewed continually and rates revised as required by changes in accounting methods, policies and procedures, services offered, and organizational structures.

Benefits adder

A ratio, the numerator of which is the employee benefits expenses of each Client Company and the denominator of which is the raw labor dollars of each Client Company. Each Client Company will have its own benefits adder pool of dollars to be distributed to that Client Company's labor dollars, so this adder rate could vary by Client Company. These adder pools will be analyzed quarterly, based on year-end projected figures as of March 31, June 30, September 30 and December 31, to determine if (1) the adder rates should be revised or if (2) an adjusting entry should be made to ensure that the pool clears out completely by year end.

Central Remittance Processing Ratio

A ratio, the numerator of which is the number of payments processed for NCNG, and the denominator of which is the total number of payments processed by the CP&L Central Remittance function. This ratio will be revised monthly, or at least annually, based upon latest available figures.

C/I/G Customers Ratio

A ratio, the numerator of which is the number of commercial, industrial and governmental electric (or gas, as applicable) customers of a Client Company and the denominator of which is the number of such customers of all Client Companies. This ratio will be revised annually, based upon figures as of December 31.

Coal Volume Allocation

A ratio, the numerator of which is the projected tons of coal to be acquired for or on behalf of a Client Company by the Utility Company for the next calendar year, and the denominator of which is the sum of the number of tons of coal projected to be acquired for or on behalf of all Client Companies and the Utility Company. This ratio shall be calculated annually, and for each fiscal year, the rate is calculated using costs and volumes estimated during the budget cycle for such year.

Direct Cost Ratio

A ratio, the numerator of which is the cost of materials, supplies or other relevant direct cost incurred by the provider entity's functional area, directly related to providing a particular service, and the denominator of which is the total cost of materials, supplies or other relevant direct cost incurred by that functional area directly related to providing that service to all Client Companies. This ratio will be revised monthly, or if not available on a monthly basis, based upon prior year actual experience.

Energy Delivery Services (EDS) Budget Revenue Rate
A ratio, the numerator of which is the relevant share of corporate, business unit and departmental indirect costs budgeted to EDS, and the denominator of which is the budgeted revenues for EDS. For each fiscal year, the rate is calculated using costs and revenues estimated during the budget cycle for such year.

Head Count Ratio
A ratio, the numerator of which is the headcount of the relevant organizational area of the Utility Company permanently situated at a Client Company's facilities or locations, and the denominator of which is total headcount of the relevant organizational area of the Utility Company. This ratio will be revised annually at December 31.

Labor Dollar Adder
A ratio, the numerator of which is the total indirect expense related to providing a particular product or service, and the denominator of which is the cost of direct and contractor labor (in dollars) incurred by the Utility Company's relevant functional area directly related to providing that service to all Client Companies. For purposes of the calculation, labor dollars of a particular work type (e.g., distribution, transmission, etc.) will be used. This adder pool will be analyzed annually, based on figures as of December 31, to determine if (1) the adder rates should be revised or if (2) an adjusting entry should be made to ensure that the pool clears out by year end.

Labor Dollar Ratio
A ratio, the numerator of which is the cost of labor (in dollars) incurred by the provider entity's functional area, directly related to providing a particular service, and the denominator of which is the total cost of labor (in dollars) incurred by that functional area directly related to providing that service to all Client Companies. For purposes of the calculation, labor dollars of a particular work type (e.g., distribution, transmission, etc.) will be used. This ratio will be revised at least annually, based upon figures as of December 31.

Labor Hour Ratio
A ratio, the numerator of which is the cost of labor (in hours) incurred by the provider entity's functional area, directly related to providing a particular service, and the denominator of which is the total cost of labor (in hours) incurred by that functional area directly related to providing that service to all Client Companies. This ratio will be revised monthly, or if not available on a monthly basis, based upon prior year actual experience.

Level of Service Estimate
A ratio, the numerator of which is the expected labor and non-labor direct costs of a specified service anticipated to be demanded by a Client Company, and the denominator of which is the aggregate anticipated demand (in direct cost dollars) from all Client Companies for such service. This ratio shall be revised annually, based upon an assessment of previous year's demand calculated as of December 31.

Mass Market Customers Ratio
A ratio, the numerator of which is the number of residential electric (or gas, as applicable) customers of a Client Company and the denominator of which is the number of such customers of all Client Companies. This ratio will be revised annually, based upon figures as of December 31.

Maximum Dependable Capacity Ratio
A ratio, the numerator of which is the Maximum Dependable Capacity of generation assets owned by a Client Company and the denominator of which is the Maximum Dependable Capacity of all Client Companies.

- For Nuclear Generation Group services, only nuclear generation assets owned by Client Companies are to be considered.
- For Power Operations services, only fossil-fired and hydro assets (including combustion turbine units) are to be considered, except with respect to System Planning and Control Center services, where all generation assets will be included in such calculation.

This ratio will be revised quarterly, based upon the figures as of March 31, June 30, September 30 and December 31.

MMBTU Transacted Ratio
A ratio, the numerator of which is the volume of wholesale gas and oil commodity transacted (purchased or sold) on behalf of a Client Company (in MMBTUs) and the denominator of which is the volume of commodity transacted on behalf of all Client Companies (in MMBTUs). This ratio will be revised annually, based upon figures as of December 31.

Modified Massachusetts Formula Ratio
The modified Massachusetts formula is a residual allocation method utilized when no direct or other reasonable cost-benefit relationship can be determined. The formula measures two equally weighted factors to arrive at an allocation percentage for each Client Company:

$$\left(\frac{\text{Client Company's Labor Dollars}}{\text{All Client Companies' Labor Dollars}} + \frac{\text{Client Company's Undepreciated Capital Assets}}{\text{All Client Companies' Undepreciated Capital Assets}}\right) / 2 = X\%$$

This ratio will be revised quarterly, based on figures as of March 31, June 30, September 30 and December 31.

MWhs Transacted Ratio
A ratio, the numerator of which is the volume of wholesale power transacted (purchased or sold) on behalf of a Client Company in MWhs and the denominator of which is the volume of commodity transacted on behalf of all Client Companies. This ratio will be revised annually, based upon figures as of December 31.

Payroll Headcount Ratio
A ratio, the numerator of which is the number of regular, full-time active employees of a Client Company for whom paychecks are processed by the Utility Company, and the denominator of which is total number of regular, full-time active employees of all Client Companies for whom paychecks are processed. This ratio will be revised annually at December 31.

Payroll Tax Adder
Each labor dollar incurred will have an additional adder to reflect a prorated portion of the payroll taxes. There will be distinct payroll tax pools representing each Service and Client Company. Payroll tax adder amounts will be created based on applying a percentage rate to base and overtime labor. There will be one rate per Service and Client Company based on individual company pools as a ratio to each company's labor.

Regional Customer Base Ratio
A ratio, the numerator of which is the total number of Client Company customers in a regional service territory, and the denominator of which is the total number of customers of the Utility Company and all Client Companies procuring the relevant service in the relevant service territory regions. The ratio will be revised annually based upon figures as of December 31.

Screening Unit Rate
A ratio, the numerator of which is the Utility Company's cost of providing underground cable location screening services, and the denominator of which is the number of such screening services work units of all Client Companies. For each fiscal year:

- The rate is calculated using costs and work units estimated during the budget cycle for such year
- Each Client Company is charged for services by multiplying the rate and the work units actually performed by the Utility Company (the "direct charges")
- Residual costs are allocated in the same proportions as the direct charges, including adjustments, at the end of such year

Total Agent-Handled Call Ratio
A ratio, the numerator of which is the number of agent-handled customer care calls processed by the Utility Company on behalf of a Client Company, and the denominator of which is total number of after-hours, agent-handled customer care calls of the relevant organizational area of the Utility Company. This ratio will be revised annually at December 31.

Total Customers Ratio
A ratio, the numerator of which is the number of total retail residential, commercial, industrial and governmental electric (or gas, as applicable) customers of a Client Company and the denominator of which is the number of such customers of all Client Companies. This ratio will be revised annually, based upon figures as of December 31.

Vehicle Cost Ratio
A ratio, the numerator of which are the hours of vehicle use and/or miles of usage directly related to providing a particular service by the provider entity's functional area, and the denominator of which is the total hours of vehicle use and/or miles of usage directly related to providing that service to all Client Companies by that functional area. This ratio will be revised monthly, or if not available on a monthly basis, based upon prior year actual experience.

VI. Listing of Products and Services and Metrics Utilized by Service Provider

A. Service Company

A general description of each Service Company department's services, which may be modified from time to time by the Service Company without notice, and method or methods of allocation to be used by the department for costs accumulated on work orders of a general nature, is documented below. No substitution or material change will be made in methods of allocation hereinafter specified unless a new method of allocation has been approved by the various regulatory agencies. Notice of any change in the methods of allocation applicable to a work order shall be given to the Client Companies affected.

- **Accounting**
  - Accounting Management
    - Description - Provides management oversight across the entire Accounting function.
    - Method of Allocation - Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.
  - General Ledger Accounting
    - Description - Maintains general ledgers, account keys and journal entries; manages the monthly and annual closing process and performs bank reconciliations.
    - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.
  - Property Accounting
    - Description - Maintains core fixed assets and materials records, including the entry of work orders in field organizations.
    - Method of Allocation - Undepreciated Assets Ratio.
  - Disbursements
    - Description - Analyzes and processes invoices and payments; administers procurement and commercial credit card process.
    - Method of Allocation - Invoice ratio.
  - Revenue Accounting
    - Description - Maintains certain customer accounting records, reconciles customer system to general ledger, maintains non-electric service accounts receivable system and performs revenue analysis.
    - Method of Allocation - Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Regulatory Accounting
  - Description - Develops regulatory financial reports and consults on proper regulatory treatment of various accounting transactions. Also maintains records and reports on fuel-related transactions.
  - Method of Allocation - Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Diversified Investments
  - Description - Handles all inter-company billing processes for subsidiaries of Progress Energy. Also, maintains accounting records for certain subsidiaries.
  - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Management Reporting
  - Description - Develops and distributes cost reports, and develops and coordinates materials presented to the Board of Directors and its committees.
  - Method of Allocation - Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Financial Reporting
  - Description - Develops internal and external financial reports.
  - Method of Allocation - Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Benchmarking
  - Description - Develops benchmarking processes to support cost vs. market and quality of service comparisons.
  - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Rates
  - Description - Develops and implements jurisdictional rates and competitive pricing options, provides embedded and marginal cost-of-service expertise and analyses in support of rate development and strategic business unit needs, and provides expertise and guidance in the application of state and FERC rate schedules, riders and service regulations.
  - Method of Allocation – Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.

- **Audit Services**
  - Internal Audit
    - Description - Provides an independent and objective appraisal of the adequacy of business controls and effectiveness and efficiency of company operations.
    - Method of Allocation - Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.

- **Corporate Communications**
  - Corporate Communications
    - Description - Includes management oversight across the entire function. Develops and distributes key company messages to external media as primary corporate spokespersons; directs corporate image through advertising.
    - Method of Allocation - Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.
  - Internal Communications
    - Description - Manages systems and creates tactical tools to keep employees informed and engaged about strategic business developments and their role in ensuring company success.
    - Method of Allocation - Headcount ratio.
  - Customer Communications
    - Description - Provides communications to Energy Delivery customers.
    - Method of Allocation - Direct cost.
  - Donations
    - Description - Corporate donations.
    - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.
  - CP&L Advertising
    - Description - Manages the company's brand position and ensures consistency in brand messages for both internal and external audiences. Directs the corporate image through advertising.
    - Method of Allocation - Direct cost.

- Florida Advertising
  - Description - Manages the company's brand position and ensures consistency in brand messages for both internal and external audiences. Directs the corporate image through advertising.
  - Method of Allocation - Direct cost.

- NCNG Advertising
  - Description - Manages the company's brand position and ensures consistency in brand messages for both internal and external audiences. Directs the corporate image through advertising.
  - Method of Allocation - Direct cost.

- **Corporate Environmental, Health & Safety**

  - Corporate Environmental Health and Safety Management
    - Description - Provides management oversight across the entire function.
    - Method of Allocation - Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.

  - Regulatory Affairs / Technical Support
    - Description - Develops programs and procedures, tracks regulatory issues, reviews events, investigates accidents and operating experiences, keeps records on compliance, tracks contractor safety, provides health and safety support and provides industrial hygiene support.
    - Method of Allocation - Headcount ratio.

  - Public Safety
    - Description - Maintains electrical and gas safety information; provides school programs and ensures regulatory compliance.
    - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

  - Energy Supply Safety Services
    - Description - Implements health and safety policies and procedures, performs hazard analyses and compliance assessments, performs health and safety training, and performs accident investigation and analysis.
    - Method of Allocation - Direct cost.

  - Energy Delivery Safety Services
    - Description - Implements health and safety policies and procedures, performs hazard analyses and compliance assessments, performs health and safety training, and performs accident investigation and analysis.
    - Method of Allocation - Direct cost.

- Retail Gas / Pipeline Safety Services
  - Description - Implements health and safety policies and procedures; performs hazard analysis and compliance assessments; performs health and safety training; conducts accident investigation and analysis; and performs DOT pipeline safety (RSPA) drug/alcohol testing and training.
  - Method of Allocation - Direct cost.

- Occupational Health Services
  - Description - Implements occupational health policies and procedures; conducts medical evaluations; performs medical surveillance; conducts free climbing medical fitness tests; and evaluates ergonomics of work activities.
  - Method of Allocation - Direct cost.

- DOT Motor Carrier Safety (FMCSR) Services
  - Description - Conducts driver (CDL) qualification; performs drug and alcohol testing and training; and conducts medical evaluations.
  - Method of Allocation - Direct cost.

- Workers' Compensation
  - Description - Performs claims management, case management, third party administrator (TPA) coordination and workers' compensation oversight and reserve administration.
  - Method of Allocation - Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Environmental Services
  - Description - Performs environmental services.
  - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

- **Corporate Relations and Administrative Services Group Administration**

  - Corporate Relations and Administrative Services Group Management
    - Description - Provides management oversight across the entire Corporate Relations and Administrative Services Group.
    - Method of Allocation- Direct Cost, global ratio or modified Massachusetts formula ratio for Client Companies benefiting from the service.

  - Administrative Services Group Management
    - Description - Provides management oversight across the Administrative Services Group.
    - Method of Allocation- Direct Cost, global ratio or modified Massachusetts formula ratio for Client Companies benefiting from the service.

- **Corporate Security**

  - Nuclear Access Authorization / Physical Security
    - Description - Provides access authorization, nuclear background investigations and "Fitness for Duty" programs.
    - Method of Allocation - Direct cost.

  - Physical Security Investigations / Employee Assistance Program ("EAP")
    - Description - Provides headquarters protection services; professional investigation and physical security services. Manages EAP designed to effectively support employees and their families.
    - Method of Allocation - Headcount ratio.

- **Corporate Services**

  - ***Department Administration***

  - Corporate Services Management
    - Description - Provides management oversight across the entire Corporate Services function. Also includes facilities management governance services and other department activities that cannot be assigned to specific products.
    - Method of Allocation - Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.

  - ***Transportation / Fleet***

  - Fleet Management
    - Description - Provides management oversight of fleet purchases, operations and maintenance services and DOT and DOE regulatory compliance activities.
    - Method of Allocation - Number of vehicles managed ratio.

  - Fleet Operation & Maintenance
    - Description - Operate, maintain and replenish vehicle fleet, including DOT and DOE regulatory compliance activities.
    - Method of Allocation - Miles and hours of usage ratio.

  - ***Facilities Management***

  - Property Management (Corporate Headquarters)
    - Description - Full service management of facilities for corporate headquarters buildings.
    - Method of Allocation - Square footage ratio (infrastructure).

- Property Management (System)
  - Description - Same as "Property Management (Corporate Headquarters)" for administration, crew, shop, and other buildings throughout the consolidated entity.
  - Method of Allocation - FTE's assigned ratio for Service Company expenses such as company labor. Direct cost for Non-Service Company costs such as contract costs and materials.

- Employee Identification ("ID") Cards (Corporation)
  - Description - Produce and maintain employee security ID cards, including the database.
  - Method of Allocation - Headcount ratio.

- Facilities Project Management
  - Description - Facility planning and programming from conceptual need identification to design construction and occupancy. Provides decommissioning or closing services of facilities for disposition by others.
  - Method of Allocation - FTE's assigned ratio for Service Company expenses such as company labor. Direct cost for Non-Service Company costs such as contract costs and materials.

- Corporate Headquarters Leasehold Improvements
  - Description: Amortization of leasehold improvement projects for corporate headquarters leased facilities.
  - Method of Allocation - Square footage ratio.

- Corporate Leases
  - Description: Manages facilities for future use.
  - Method of Allocation - Direct cost.

- ***Travel Center***

- Corporate Air Services (Variable)
  - Description - Operates corporate aircraft. Includes fuel, landing fees, inspections and other variable expenses.
  - Method of Allocation - Direct cost at an average hourly rate based on the cost to operate aircraft.

- Corporate Air Services (Fixed)
  - Description - Maintain and pilot corporate aircraft. Includes lease of aircraft, hangar fees, pilots' salaries and other fixed expenses.
  - Method of Allocation - Prior year usage ratio.

- ***Supplier Diversity***

- Supplier Diversity
  - Description - Manages the corporate effort to increase the diversity of suppliers.
  - Method of Allocation - Corporate Common Stores adder.

- ***Supply Chain Management***

- Contracts/ Leasing
  - Description – Identifies sources, prepares contracts for services, leasing and resource sharing.
  - Method of Allocation – FTE's assigned ratio.

- Purchasing
  - Description – Identifies sources and procures materials and equipment.
  - Method of Allocation – Corporate common stores adder.

- Investment Recovery
  - Description - Develops markets and sells surplus materials.
  - Method of Allocation - Corporate common stores adder.

- Warehousing
  - Description - Receives, sorts and distributes material.
  - Method of Allocation - Energy Delivery locational stores adder.

- Inventory Planning and Analysis
  - Description - Evaluates material needs and manages inventory levels.
  - Method of Allocation - Corporate common stores adder.

- Oil-Filled Equipment Repairs
  - Description - Repairs transformers and other oil-filled equipment and tests rubber goods (lineman's safety equipment). Also includes PCB and oil handling.
  - Method of Allocation - Direct cost.

- ***Corporate Data and Support Services***

- Supply Chain Data Services
  - Description - Provides end user support for computing systems, including corporate supply chain and other systems used in Corporate Services functions.
  - Method of Allocation - Corporate common stores adder.

- Records and Procedures
  - Description - Provides governance services, common programs and standards, contract management for records and procedures and controlled document needs.
  - Method of Allocation - Headcount ratio.

- Research and Technical Data
    - Description - Conduct negotiations, management and application support for industry standards, technical documents, and common business research tools.
    - Method of Allocation - Prior year usage ratio.

- Mail Services
    - Description - Manages labor, supplies, equipment postage, and contracts in support of corporate mail operations (excluding printing and mailing bills).
    - Method of Allocation - Headcount ratio.

- Copy Center Services
    - Description - Manages program and contracts to provide copy equipment, maintenance, supplies and paper in user locations and for bulk and special copy services.
    - Method of Allocation - Headcount ratio for management oversight services. Direct cost based on number of copies for convenience copies. Direct cost for bulk and special copy services processed on procurement cards.

- Print and Mail Bills
    - Description - Prepares budgets and monitors expenses for related postage and supplies. Includes printing and mailing of customer bills.
    - Method of Allocation - Direct cost.

- **Economic Development**
    - Description - Provide services associated with promoting economic development within our service territory.
    - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

- **Executive Administration**

    - Executive Management
        - Description - Provides management oversight across the Holding Company system.
        - Method of Allocation - Direct cost, global ratio or modified Massachusetts formula ratio for Client Companies benefiting from the service.

    - Operating Lease
        - Description - Non-capital lease payments.
        - Method of Allocation - Direct cost, global ratio or modified Massachusetts formula ratio for Client Companies benefiting from the service or square footage ratio.

- Depreciation Expense
    - Description - Depreciation expense on Service Company assets.
    - Method of Allocation - Global ratio or modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Capital Lease
    - Description - Lease payments on capital assets.
    - Method of Allocation - Direct cost, global ratio or modified Massachusetts formula ratio for Client Companies benefiting from the service or square footage ratio.

- Property Tax
    - Description - Property tax payments.
    - Method of Allocation - Direct cost, global ratio or modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Interest Expense
    - Description - Interest expense payments.
    - Method of Allocation - Direct cost, global ratio or modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Transitional Expense
    - Description - Service Company transitional expenses, such as severance, administrative leave and other items.
    - Method of Allocation - Direct cost, global ratio or modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Service Company Tax Expense
    - Description - Tax expense of the Service Company.
    - Method of Allocation - Direct cost, global ratio or modified Massachusetts formula ratio for Client Companies benefiting from the service.

- **Financial Services Group Administration**

    - Financial Services Executive Management
        - Description - Provides management oversight across the entire Financial Services Group.
        - Method of Allocation- Direct Cost, global ratio or modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Finance Executive Management
  - Description - Provides management oversight across the entire Finance Group.
  - Method of Allocation- Direct Cost, global ratio or modified Massachusetts formula ratio for Client Companies benefiting from the service.

- **Human Resources**

  - ***Department Administration***

  - Human Resources Management
    - Description - Provides management oversight across the entire Human Resource function.
    - Method of Allocation - Direct cost and headcount ratio.

  - Labor Relations
    - Description - Provides corporate support for labor-related issues.
    - Method of Allocation - Headcount ratio.

  - ***Compensation & Benefits***

    - Benefit Program Management
    - Description - Administers health, welfare, qualified plans & executive benefits.
    - Method of Allocation - Direct cost and headcount ratio.

  - Compensation
    - Description - Administers compensation programs.
    - Method of Allocation - Direct cost and headcount ratio.

  - Benefit Plan Integration
    - Description - Provides integration of Client Company benefit plans.
    - Method of Allocation - Headcount ratio.

  - ***Organizational Assessment***

  - Equal Employment Opportunity ("EEO") / Affirmative Action ("AA") / Diversity
    - Description - Provides consultation and support on AA, EEO and diversity.
    - Method of Allocation - Headcount ratio.

- ***Human Resources Business Services***

- Human Resources ("HR") Information System
  - Description - Manages overall HR information; administers the PeopleSoft HR system; and provides benefits administration.
  - Method of Allocation - Headcount ratio.

- Policy / Pay / Benefit Administration
  - Description - Provides the employee information line, benefits administration, compensation administration and policies / practices, and administers corporate relocations services and pre-retirement seminars.
  - Method of Allocation - Headcount ratio.

- ***Workforce Effectiveness***

- Organizational Effectiveness
  - Description - Designs and implements HR process improvements.
  - Method of Allocation - Headcount ratio.

- Staffing/Recruiting
  - Description - Recruits, screens, tests and interviews applicants and consults with managers on staffing plans and issues.
  - Method of Allocation - Headcount ratio.

- Staffing Record Keeping & Compliance
  - Description - Administers record-keeping of all job applications and requisitions, tracking of data for reporting and compliance with applicable regulations.
  - Method of Allocation - Headcount ratio.

- Training & Development - Executive and Personal
  - Description - Provides executive and personal developmental training and employee development programs.
  - Method of Allocation - Direct cost and headcount ratio.

- ***HR Business Unit Support***

- HR - Nuclear Generation Group ("NGG")
  - Description - Includes cost of the HR service manager and representatives who provide HR management. Provides consultation and support to managers and employees in the NGG.
  - Method of Allocation - Direct cost.

- HR - Power Operations Group ("POG")
  - Description - Includes cost of the HR service manager and representatives who provide HR management. Provides consultation and support to managers and employees in the POG.
  - Method of Allocation - Direct cost.

- HR - Energy Delivery ("ED")
  - Description - Includes cost of the HR service manager and representatives who provide HR management. Provides consultation and support to managers and employees in ED.
  - Method of Allocation - Direct cost.

- HR - Energy Services
  - Description - Includes cost of the HR service manager and representatives who provide HR management. Provides consultation and support to managers and employees in Energy Services.
  - Method of Allocation - Direct cost.

- HR - Service Company
  - Description - Includes cost of the HR service manager and representatives who provide HR management. Provides consultation and support to managers and employees in the Service Company.
  - Method of Allocation - Headcount ratio (infrastructure).

- HR - North Carolina Natural Gas ("NCNG")
  - Description - Includes cost of the HR service manager and representatives who provide HR management. Provides consultation and support to managers and employees in NCNG.
  - Method of Allocation - Direct cost.

- HR - Florida Power Corporation ("FPC")
  - Description - Includes cost of the HR service manager and representatives who provide HR management. Provides consultation and support to managers and employees in the FPC.
  - Method of Allocation - Direct cost.

- **Information Technology ("IT")**

  - IT Infrastructure and Management
    - Description - Provides management oversight across the entire function.
    - Method of Allocation - Information Technology Distributed Cost Ratio.

- Applications - Development and Enhancement
  - Description - Plan, design, implement and enhance business software applications.
  - Method of Allocation - Information Technology Standard Labor Rate; otherwise, actual cost.

- Applications - Maintenance
  - Description- Maintain and repair business software applications.
  - Method of Allocation - Information Technology Standard Labor Rate.

- Applications - Operations
  - Description- Provide computing, data storage, and printing for business software applications.
  - Method of Allocation - Information Technology Application Index Ratio.

- Personal Computers
  - Description- Personal computer hardware, software, remote access, and support.
  - Method of Allocation - Information Technology Standard Personal Computer Count Rate.

- Network Enabled Services
  - Description - E-mail, shared calendars, shared storage (i.e., file servers and associated data storage devices), print servers, shared printers, Internet/Intranet access, and access to application servers.
  - Method of Allocation - Information Technology Standard Headcount Rate.

- **Legal**

  - Legal Services
    - Description - Includes all activities associated with providing legal services and support in all matters related to company operations and relations for consolidated or Service Company. Also includes management oversight over the entire Legal function.
    - Method of Allocation - Direct cost and Modified Massachusetts formula ratio for Client Companies benefiting from the service.

  - Corporate Secretary
    - Description - Coordinates Board of Directors ("BOD") activities and handles shareholder relations.
    - Method of Allocation - Direct cost to the Holding Company.

- Claims
  - Description - Provides investigation and settlement support and payment of claims. Coordinates the collection of monies owed to the Company for damage to Company facilities and equipment as a result of third party negligence.
  - Method of Allocation - Historical claims ratio.

- **President**

  - Service Company President
    - Description - Provides management oversight across the entire Holding and Service Company.
    - Method of Allocation - Direct cost, global ratio or modified Massachusetts formula ratio for Client Companies benefiting from the service.

  - Storm Support
    - Description - Provides storm support services.
    - Method of Allocation - Direct cost.

  - Resource Sharing
    - Description - Provides additional labor resources to client companies for special projects such as outage support.
    - Method of Allocation - Direct cost.

- **Public Affairs**

  - Public Affairs
    - Description - Influences legislation and shapes public policy and opinion on major corporate issues; monitors and tracks legislation.
    - Method of Allocation - Direct cost to the Holding Company.

- **Real Estate Management**

  - Real Estate
    - Description - Buys, sells, leases and develops real estate. Provides lake, timber and land management. Coordinates and supports right-of-way activities.
    - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

- **Regulatory Affairs**

  - Regulatory Affairs
    - Description - Manages retail regulatory issues and activities with the utilities commissions in North and South Carolina, and provides support for federal and state legislative affairs regarding retail matters. Obtains state utilities commissions' approvals of all Company initiatives.
    - Method of Allocation - Direct cost and Modified Massachusetts formula ratio for Client Companies benefiting from the service.

- **Strategic Planning**

  - Strategic Planning
    - Description - Maintains responsibility for corporate strategic planning.
    - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

  - Market Research - Global
    - Description - Provides market research services for the consolidated entity.
    - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

  - Market Research - Utility
    - Description - Provides market research services to the electric utilities.
    - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

  - Investor Relations / Funds Management
    - Description - Manages relations with the financial community and the performance of external trust funds.
    - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

- **Tax**

  - Payroll
    - Description - Conducts time entry, maintains payroll system, runs payroll, produces payroll-related reports and processes employee expense reports.
    - Method of Allocation - Headcount ratio.

- Tax Administration
  - Description - Conducts tax planning and prepares returns; includes income and other tax analysis.
  - Method of Allocation - Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Tax Services
  - Description - Provides CP&L tax services.
  - Method of Allocation - Direct cost.

- **Telecommunications**

  - Telecom Projects
    - Description – Provide one time or infrequent services such as installation of infrastructure equipment in new facilities, removal of equipment from facilities, or improving telecommunication services.
    - Method of Allocation - Direct cost.

  - Voice and Data Services
    - Description – Provide 800 service, wired and wireless telephones, local and long distance telephone service, pagers, radio equipment, and dedicated data circuits.
    - Method of Allocation - Direct cost.

  - Infrastructure and Maintenance
    - Description – Provide and maintain local area data networks, wide area data networks, fiber usage, video conferencing, voice mail, as well as network maintenance and support.
    - Method of Allocation - Headcount Ratio or Circuit Count Ratio.

- **Treasury**

  - Treasury Management
    - Description - Provides management oversight across the entire Treasury function.
    - Method of Allocation - Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.

  - Financing
    - Description - Manages external financing and investments, bank relationships and the cost of capital and ensures compliance with financing documents.
    - Method of Allocation - Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Cash Management
  - Description - Manages the efficient movement of company funds through the banking system and secures short-term debt financing and/or investments.
  - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Insurance Risk Management
  - Description - Manages the corporate insurance program.
  - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Business Case Analysis
  - Description - Provides analysis support for business case development for various initiatives.
  - Method of Allocation - Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Financial Risk Management
  - Description - Independently measures and reports corporate risk exposures and provides risk management training, tools, controls and strategies.
  - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Financial Forecasting, Budgeting & Business Planning
  - Description - Coordinates and develops plans and budgets for corporate and line organizations. Prepares and presents results of financial forecasts and provides financial and planning support for the regulatory and strategic planning process.
  - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Load Forecasting
  - Description - Prepares and presents economic, load and energy forecasts.
  - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Property Insurance
  - Description - Property insurance premiums.
  - Method of Allocation - Undepreciated assets ratio.

- Liability and Workers' Compensation Insurance
  - Description - Liability and workers' compensation insurance premiums.
  - Method of Allocation - Labor dollars ratio.

- Other Insurance
    - Description - Crime, director and officer, aircraft, fiduciary and special insurance premiums.
    - Method of Allocation - Modified Massachusetts formula ratio for Client Companies benefiting from the service.

- Nuclear Premium and Credit
    - Description - Nuclear property and liability insurance premium and credit for good experience.
    - Method of Allocation - Direct cost.

- Financial Administration Fees
    - Description - Includes financial administration fees, such as bank fees.
    - Method of Allocation - Direct cost and modified Massachusetts formula ratio for Client Companies benefiting from the service.

B. Utility and Associate Companies

A general description of each Utility Company department's services, which may be modified from time to time by the Utility Company without notice, and method or methods of allocation to be used by the department for costs accumulated on work orders of a general nature, is documented below. No substitution or material change will be made in methods of allocation hereinafter specified unless a new method of allocation has been approved by the various regulatory agencies. Notice of any change in the methods of allocation applicable to a work order shall be given to the Client Companies affected.

1. Transmission and Distribution

a. Transmission/Distribution Support
   - (1) Description – Design new substations, transmission and distribution lines and improvements, maintains records and drawings, designs new distribution feeders and improvements, relocations of existing lines, system reliability monitoring and root cause failure analysis
   - (2) Method of Allocation – Direct Cost, Labor Dollar Ratio, Labor Dollar Adder or Headcount Ratio

b. Distribution Design
   - (1) Description – Underground cable location screening
   - (2) Method of Allocation – Direct Cost, Labor Dollar Ratio, Labor Dollar Adder or Screening Unit Rate

c. Management and Oversight
   - (1) Description – Executive management and benchmarking (key performance indicators) and craft and technical training management for T&D
   - (2) Method of Allocation – Direct Cost, Modified Massachusetts Formula Ratio or Headcount Ratio

d. Construction
   - (1) Description – Joint trenching construction in CP&L/NCNG overlapping service territory
   - (2) Method of Allocation – Direct Cost, Labor Dollar Ratio or Labor Dollar Adder

e. Fiber Construction
   - (1) Description – Lay fiber on electrical structures and underground for Progress Telecom
   - (2) Method of Allocation – Direct Cost or Energy Delivery Services (EDS) Budget Revenue Rate

f. Metering Services
   (1) Description – Develop and implement meter technology strategy and marketing
   (2) Method of Allocation – Direct Cost or Headcount Ratio

g. T&D Contract Services
   (1) Description – Distribution support
   (2) Method of Allocation – Direct Cost, Modified Massachusetts Formula Ratio or Headcount ratio

h. Field Payments
   (1) Description – Provides paystation support in certain overlapping service territory regions.
   (2) Method of allocation – Direct Cost or Regional Customer Base Ratio

i. Community Relations
   (1) Description – Provides community relations support through Chamber of Commerce and other activities in certain overlapping service territory regions.
   (2) Method of allocation – Direct Cost or Regional Customer Base Ratio

2. Customer Service

a. Management
   (1) Description – Executive management for Customer Service
   (2) Method of Allocation – Direct Cost or Total Customers Ratio

b. Performance Solutions
   (1) Description – Call management scheduling, forecasting and monitoring; customer service training and support; and performance improvement projects
   (2) Method of Allocation – Direct Cost or Total Customers Ratio

c. Customer Calls
   (1) Description – Answer CP&L customer calls after hours in the Florida Power Call Center
   (2) Method of Allocation – Total Customers Ratio or Total Agent-Handled Call Ratio

d. Gas Customer Service
   (1) Description – Support customer service functions at NCNG including billing, customer service employees
   (2) Method of Allocation – Direct Cost

e. Gas Central Remittance Processing
   (1) Description – Process mailed in customer payments for gas
   (2) Method of allocation – Direct Cost or Central Remittance Processing Ratio

3. Telecommunications

a. Field Telecommunications
   (1) Description – Provide installation and configuration assistance with communications facilities
   (2) Method of Allocation – Direct Cost, Labor Dollar Ratio, Labor Hour Ratio, Direct Cost Ratio or Vehicle Cost Ratio

b. Energy Delivery Engineering
   (1) Description – Maintain T&D-related communication system and construction of fiber on electrical structures and underground; engineering and construction of wireless attachments and new towers
   (2) Method of Allocation – Direct Cost, Labor Dollar Ratio, Labor Hour Ratio, Direct Cost Ratio or Vehicle Cost Ratio

c. Business Operations - Environmental Support
   (1) Description – Secure necessary permits for telecom projects
   (2) Method of Allocation – Direct Cost, Labor Dollar Ratio, Labor Hour Ratio, Direct Cost Ratio or Vehicle Cost Ratio

4. Energy Supply

a. Management and Finance
   (1) Description – Provide Energy Supply executive management and financial services/business operations oversight and financial and strategy support for Energy Supply functions; track key performance indicators and develop business plans
   (2) Method of Allocation – Direct Cost, Modified Massachusetts Formula Ratio or Maximum Dependable Capacity Ratio

5. Nuclear

a. Management and Finance
   (1) Description – Provide Nuclear executive management and financial services/business operations oversight; provide financial strategy support for energy supply functions; track key performance indicators and develop business plans
   (2) Method of Allocation – Direct Cost or Maximum Dependable Capacity Ratio

b. Regulatory, Assessment and Oversight
   (1) Description – Provide regulatory and licensing, corrective action/operating experience, quality assurance and emergency preparedness support and oversight
   (2) Method of Allocation – Direct Cost or Maximum Dependable Capacity Ratio

c. Engineering and Programs
   (1) Description – Coordinate plant engineering to facilitate standardization and provide nuclear fuel related activities to support the stations
   (2) Method of Allocation – Direct Cost or Maximum Dependable Capacity Ratio

d. Materials and Contracts Support
   (1) Description – Provide central procurement engineering, nuclear material acquisition, and purchasing and contracts oversight and support
   (2) Method of Allocation – Direct Cost or Maximum Dependable Capacity Ratio

e. Information Technology
   (1) Description –Provide IT support and oversight for plant business applications
   (2) Method of Allocation – Direct Cost, Maximum Dependable Capacity Ratio or Level of Service Estimate

f. Nuclear Analytical Services
   (1) Description – Provide radiological, metallurgical and analytical chemistry services
   (2) Method of Allocation – Direct Cost, Maximum Dependable Capacity Ratio or Level of Service Estimate

6. Electric Fuels Corp.

a. Coal Procurement and Transportation
   (1) Description – Purchase and transport coal, conduct all related analyses and administer associated contracts
   (2) Method of Allocation – Direct Cost, Coal Volume Allocation (or other cost allocation mechanism(s) permitted by the relevant state and federal regulatory bodies)

7. Power Operations

a. Management and Finance

   (1) Description – Provide executive and functional management across the following functional areas: Power trading and support, gas and oil supply and power plant development and construction, system operations and planning, energy control centers, engineering, fossil operations, CT operations and support and training; provide financial services/business operations oversight and financial and strategy support for Power Operations functions; track key performance indicators and develop business plans

   (2) Method of Allocation – Direct Cost, Modified Massachusetts Formula Ratio or Level of Service Estimate

b. Gas and Oil Supply (Short-Term)
   (1) Description – Coordinate short-term trading activities with supply and pipeline scheduling, monitor market conditions and track daily volumes
   (2) Method of Allocation – Direct Cost or MMBTU Transacted Ratio

c. Gas and Oil Supply (Long-Term)
   (1) Description – Acquire, develop and negotiate long-term supply and pipeline capacity and monitor market conditions
   (2) Method of Allocation – Direct Cost, Modified Massachusetts Formula Ratio or Level of Service Estimate

d. Power Trading
   (1) Description – Identify hourly, pre-scheduled and forward trading opportunities, coordinate with system operations, establish cost basis for trading, control trading risk and provide software support to trading operations
   (2) Method of Allocation – Direct Cost or MWhs Transacted Ratio

e. Power Trading Support
   (1) Description – Coordinate transactions with traders, analyze markets and provide simulations and pricing models, comply with regulatory filing requirements, reconcile accounts (and manage wholesale power contracts)
   (2) Method of Allocation – Direct Cost, MWhs Transacted Ratio or Level of Service Estimate

f. System Planning
   (1) Description – Maintain product and resource planning models and database of generating units and load forecasts, perform valuation activities and perform costing analysis in support of outage scheduling and financial forecasting
   (2) Method of Allocation – Direct Cost or Maximum Dependable Capacity Ratio

g. Generation Expansion
   (1) Description – Negotiate with lenders and vendors for proposed projects, develop business cases to support new projects and analyze infrastructure; manage construction process
   (2) Method of Allocation – Direct Cost, Labor Dollar Adder or Labor Dollar Ratio

h. Energy Control Center Training
   (1) Description – Develop and conduct Energy Control Center training
   (2) Method of Allocation – Direct Cost or Maximum Dependable Capacity Ratio

i. Plant Operations – Planning and Work Management
   (1) Description – Provide system expertise for plants, plan and develop work packages for various types of maintenance and schedule routine maintenance
   (2) Method of Allocation – Direct Cost, Labor Dollar Adder, Labor Dollar Ratio or Level of Service Estimate

j. Plant Operations – Fuel, Water and Facilities Monitoring and Management
   (1) Description – Monitor and maintain water quality in plants, conduct fuel analyses, manage inventory and materials levels, track burn rates, assess equipment performance and coordinate maintenance and manage fuel delivery and waste product removal
   (2) Method of Allocation – Direct Cost or Level of Service Estimate

k. Engineering
   (1) Description – Design and manage plant and equipment modifications, coordinate with original equipment manufacturers and monitor efficiency issues
   (2) Method of Allocation – Direct Cost or Level of Service Estimate

l. Operations Support
   (1) Description – Provide equipment expertise, troubleshoot systemic problems, conduct all fly ash activities, process improvement, outage management, work scheduling, perform maintenance services and manage accounting and billing services
   (2) Method of Allocation – Direct Cost or Level of Service Estimate

m. Technical Services Support
   (1) Description – Provide supervision, project management, training, environmental compliance/remediation, performance engineering, and non-destructive examination services
   (2) Method of Allocation – Direct Cost or Level of Service Estimate

n. Core Environmental Services
   (1) Description – Manage air and water emissions, monitoring, testing and disposal of hazardous waste and environmental permitting, compliance and reporting and provide related management and oversight
   (2) Method of Allocation – Direct Cost or Level of Service Estimate

o. CT Operations/Maintenance
   (1) Description – Provide CT support and technical services
   (2) Method of Allocation – Direct Cost or Level of Service Estimate

8. Gas and Energy Services

a. Management and Finance
   (1) Description – Provide executive management across the entire function and financial and strategy support for Gas and Energy Services functions; budget and track key performance indicators and develop business plans
   (2) Method of Allocation – Direct Cost, Modified Massachusetts Formula Ratio or Level of Service Estimate

b. C/I/G Sales
   (1) Description – C/I/G Sales
   (2) Method of Allocation – Direct Cost or C/I/G Customers Ratio

c. Mass Sales
   (1) Description – Influence the distribution channel for the sale of electric and gas products and maintain relationships with key segment decision-makers
   (2) Method of Allocation – Direct Cost or Mass Market Customers Ratio

d. Sales
   (1) Description – Create customized sales proposals and communicate the value and benefits of company products to mass customers
   (2) Method of Allocation – Direct Cost or Total Customers Ratio

e. Sales Tracking
   (1) Description – Maintain the automated tracking system and train sales and marketing force in its use
   (2) Method of Allocation – Direct Cost or Total Customers Ratio

f. C/I/G Marketing
   (1) Description – Identify innovative opportunities and product concepts for commercial, industrial and governmental customers and manage launched product lines for C/I/G market customers
   (2) Method of Allocation – Direct Cost or C/I/G Customers Ratio

g. Mass Marketing
   (1) Description – Identify innovative opportunities and product concepts and manage launched product lines for mass market customers
   (2) Method of Allocation – Direct Cost or Mass Market Customers Ratio

h. C/I/G Product Support
   (1) Description – Provide oversight of equipment installations, provide technical expertise in electrical and mechanical systems and develop cost estimates and pricing to support product sales and service
   (2) Method of Allocation – Direct Cost or C/I/G Customers Ratio

i. Mass Product Support
   (1) Description – Develop cost estimates and pricing to support product sales and service
   (2) Method of Allocation – Direct Cost or Mass Market Customers Ratio

9. Information Technology

a. Information Technology Services
   (1) Description – Provide telecom support, applications programming and analysis and staff IT help desk
   (2) Method of Allocation – Direct Cost

10. Florida Support Services

a. Legal Services
   (1) Description – Provide legal services and support in certain matters related to company operations and relations for consolidated or Service Company.
   (2) Method of Allocation – Direct Cost or Labor Hours Ratio

b. Claims
   (1) Description – Provides investigation and settlement support and payment of general liability and motor vehicle accidents and coordinate the collection of monies owed for damage to facilities and equipment as a result of third party negligence.
   (2) Method of Allocation – Direct Cost or Labor Hours Ratio

c. Internal Audit
   (1) Description – Provide an independent and objective appraisal of the adequacy of business controls and effectiveness and efficiency of company operations.
   (2) Method of Allocation – Direct Cost or Labor Hours Ratio

d. Insurance
   (1) Description – Property, liability and fiduciary insurance premiums.
   (2) Method of Allocation – Direct Cost or Labor Hours Ratio

e. Tax Administration
   (1) Description – Conduct tax planning and prepare returns
   (2) Method of Allocation – Direct Cost or Labor Hours Ratio

f. Financial and Insurance Risk Management
   (1) Description – Independently measure and report corporate risk exposures and provide risk management training, tools, controls and strategies; manage the corporate insurance program
   (2) Method of Allocation – Direct Cost or Labor Hours Ratio

g. Cash Management
   (1) Description – Manage the efficient movement of company funds through the banking system and secures short-term debt financing and/or investments.
   (2) Method of Allocation – Direct Cost or Labor Hours Ratio

h. Executive Benefits Management
   (1) Description – Administer health, welfare, qualified plans & executive benefits.
   (2) Method of Allocation – Direct Cost or Labor Hours Ratio

i. Payroll
   (1) Description – Conduct time entry, maintain payroll system, run payroll, produce payroll-related reports and process employee expense reports.
   (2) Method of Allocation – Direct Cost or Payroll Headcount Ratio

11. Miscellaneous Services

a. Controls Maintenance
   (1) Description – Provide energy controls maintenance services for Brunswick plant
   (2) Method of Allocation – Direct Cost

b. Labor Charge Back
   (1) Description –Reimbursement for CP&L employees working in Florida
   (2) Method of Allocation – Direct Cost

c. Transition Expenses
   (1) Description –Transition costs for employees relocating to Florida
   (2) Method of Allocation – Direct Cost

VII. A. Table of Services Provided to Each Legal Entity by the Service Company

Jan 2001 - Dec 2001

Product/Shared Service	Holding Company	CP&L	NCNG	FPC	Electric Fuels	Progress Telecom	SRS	Monroe Power
Executive Administration								
Executive Management	X	X	X	X	X	X	X	X
President								
Service Company President	X	X	X	X	X	X	X	X
Storm Support		X	X	X				
Resource Sharing		X	X	X				
Corporate Relations & Administrative Services Group Management								
Corporate Relations & Administrative Services Group Management	X	X	X	X	X	X	X	X
Administrative Services	X	X	X	X	X	X	X	X
Audit								
Internal Audit	X	X	X				X	X
Corporate Security								
Nuclear Access Authorization/Physical Security		X		X				
Physical Security Investigations/ Employee Assistance Program (EAP)		X	X	X	X	X	X	X
Corporate Services								
Department Administration								
Corporate Services Management		X	X	X				
Transportation/Fleet								
Fleet Management		X	X	X				
Fleet Operation & Maintenance		X	X					
Facilities Management								
Property Management (Corp Hdq)		X	X			X		
Property Management (System)		X	X					

VII. A. Table of Services Provided to Each Legal Entity by the Service Company

Jan 2001 - Dec 2001

Product/Shared Service	Holding Company	CP&L	NCNG	FPC	Electric Fuels	Progress Telecom	SRS	Monroe Power
Employee Identification Cards (Corporation)		X	X	X		X		
Facilities Project Management		X	X	X				
Corporate Headquarters Leasehold Improvements		X	X					
Corporate Leases		X						
Travel Center								
Corporate Air Services (Variable)		X	X	X			X	X
Corporate Air Services (Fixed)		X	X				X	X
Supplier Diversity								
Supplier Diversity		X	X			X	X	X
Supply Chain Management								
Contracts / Leasing		X						X
Purchasing		X	X			X	X	X
Investment Recovery		X	X			X	X	X
Warehousing		X						
Inventory Planning & Analysis		X	X			X	X	X
Oil-Filled Equipment Repairs		X		X				
Corporate Data & Support Services								
Supply Chain Data Services		X	X			X	X	X
Records and Procedures		X	X	X				X
Research and Technical Data		X	X	X				
Mail Services		X	X	X	X			
Copy Center Services		X	X					
Print and Mail Bills		X		X				

VII. A. Table of Services Provided to Each Legal Entity by the Service Company

Jan 2001 - Dec 2001

Product/Shared Service	Holding Company	CP&L	NCNG	FPC	Electric Fuels	Progress Telecom	SRS	Monroe Power
Legal								
Legal Services	X	X	X				X	X
Corporate Secretary	X							
Claims		X	X					
Real Estate Management								
Real Estate		X	X	X				
Regulatory Affairs								
Regulatory Affairs		X	X					
Public Affairs								
Public Affairs	X							
Corporate Communications								
Corporate Communications	X	X	X	X	X	X	X	X
Internal Communications		X	X	X	X	X	X	X
Customer Communications		X						
Donations	X	X	X				X	X
CP&L Image Advertising		X						
Florida Image Advertising				X				
NCNG Image Advertising			X					
Human Resources								
Department Administration								
Human Resources Management		X	X	X		X	X	X
Labor Relations		X	X	X	X	X		X
Compensation & Benefits								

VII. A. Table of Services Provided to Each Legal Entity by the Service Company

Jan 2001 - Dec 2001

Product/Shared Service	Holding Company	CP&L	NCNG	FPC	Electric Fuels	Progress Telecom	SRS	Monroe Power
Benefit Program Management		X	X			X		X
Compensation		X	X			X		X
Benefit Plan Integration		X	X	X				
Organizational Assessment								
EEO/AA/Diversity		X	X	X		X		X
HR Business Services								
HRIS		X	X	X		X		X
Policy/Pay/Benefit Administration		X	X	X		X		X
Workforce Effectiveness								
Organizational Effectiveness (WFE)		X	X	X				X
Staffing/Recruiting		X	X					X
Staffing Record Keeping & Compliance		X	X	X				X
Training & Development - Executive/Personal		X	X	X				X
HR Business Unit Support								
HR - NGG		X		X				
HR - POG		X		X				
HR - ED		X		X				
HR - Energy Services		X						
HR - NCNG			X					
HR - FPC				X				
Corporate Environmental, Health & Safety								
Corporate Environmental, Health and Safety Management		X	X	X		X		
Regulatory Affairs/Technical Support		X	X	X				X

VII. A. Table of Services Provided to Each Legal Entity by the Service Company

Jan 2001 - Dec 2001

Product/Shared Service	Holding Company	CP&L	NCNG	FPC	Electric Fuels	Progress Telecom	SRS	Monroe Power
Public Safety		X	X	X				
Energy Supply Safety Services		X						
Energy Delivery Safety Services		X						
Retail Gas/Pipeline Safety Services			X					
Occupational Health (OH) Services		X						
DOT Motor Carrier Safety (FMCSR) Services		X						
Workers' Compensation		X	X	X	X	X		
Environmental Services	X	X	X	X			X	X
Economic Development								
Economic Development	X	X	X					
Financial Services Group Administration								
Financial Services Executive Management	X	X	X	X	X	X	X	X
Finance Executive Management	X	X	X	X	X	X	X	X
Accounting								
Accounting Management		X	X	X				
General Ledger Accounting	X	X	X					X
Property Accounting		X	X					
Disbursements		X	X				X	X
Revenue Accounting		X	X					
Regulatory Accounting		X	X					
Diversified Investments	X	X	X	X	X	X	X	X
Management Reporting	X	X	X	X				
Financial Reporting	X	X	X	X	X	X	X	X

VII. A. Table of Services Provided to Each Legal Entity by the Service Company

Jan 2001 - Dec 2001

Product/Shared Service	Holding Company	CP&L	NCNG	FPC	Electric Fuels	Progress Telecom	SRS	Monroe Power
Benchmarking	X	X	X	X	X	X	X	X
Rates		X	X					
Tax								
Tax Administration	X	X	X	X	X	X	X	X
Payroll		X	X	X				X
Tax Services		X		X				
Treasury								
Treasury Management	X	X	X	X	X	X	X	X
Financing	X	X	X	X	X	X	X	
Cash Management	X	X	X	X		X	X	
Insurance Risk Management	X	X	X	X	X	X	X	X
Business Case Analysis		X	X	X				
Financial Risk Management	X	X	X	X	X	X	X	X
Financial Forecasting, Budgeting & Business Planning	X	X	X	X	X	X	X	X
Load Forecasting		X	X					
Property Insurance		X	X	X	X	X		X
Liability and Workers' Compensation Insurance		X	X		X	X		X
Other Insurance		X	X	X	X	X		X
Nuclear Premium & Credit		X		X				
Financial Administration Fees		X						
Strategic Planning								
Strategic Planning	X	X	X	X	X	X	X	X
Market Research - Global	X	X	X	X	X	X	X	X

VII. A. Table of Services Provided to Each Legal Entity by the Service Company

Jan 2001 - Dec 2001

Product/Shared Service	Holding Company	CP&L	NCNG	FPC	Electric Fuels	Progress Telecom	SRS	Monroe Power
Investor Relations/ Funds Management	X	X	X	X	X	X	X	X
Market Research - Utility		X		X				
Information Technology								
IT Infrastructure & Management		X	X	X	X	X	X	X
Application Development & Enhancement		X	X	X	X	X	X	X
Application Maintenance		X	X	X	X	X	X	X
Application Operation - Mainframe		X	X	X	X	X	X	X
Application Operation - Client Server		X	X	X	X	X	X	X
Application Operation - NT		X	X	X	X	X	X	X
Application Operation - SUN		X	X	X	X	X	X	X
Application Operation - Other		X	X	X	X	X	X	X
Personal Computers		X	X	X	X	X	X	X
Network Enabled Services		X	X	X	X	X	X	X
Telecommunications								
Telecom Projects		X	X	X	X	X		X
Voice & Data Services		X	X	X	X	X		X
Infrastructure & Maintenance		X	X	X	X	X		X
Corporate								
Operating Lease	X		X	X	X	X	X	X
Depreciation Expense	X	X	X	X	X	X	X	X
Capital Leases	X	X	X	X	X	X	X	X
Property Tax - Service Company	X	X	X	X	X	X	X	X
Interest Expense	X	X	X	X	X	X	X	X

VII. A. Table of Services Provided to Each Legal Entity by the Service Company

Jan 2001 - Dec 2001

Product/Shared Service	Holding Company	CP&L	NCNG	FPC	Electric Fuels	Progress Telecom	SRS	Monroe Power
Transitional Expenses	X	X	X	X	X	X	X	X
Service Company Income Tax Expense	X	X	X	X	X	X	X	X

Note: Matrix is based on 2001 Budgets.

VII. B. Table of Services Provided to Each Legal Entity by Utility and Associate Companies

Jan 2001 - Dec 2001

Provider Company	Product/Shared Service	Service Company	Holding Company	CP&L	NCNG	FPC	Electric Fuels	Progress Telecom	SRS	Monroe Power
CP&L	C/I/G Marketing				X	X				
CP&L	C/I/G Product Support				X	X			X	
CP&L	C/I/G Sales				X	X			X	
CP&L	Coal Procurement & Transportation						X			
CP&L	Community Relations				X	X				
CP&L	Core Environmental Services				X	X				X
CP&L	CT Operations/Maintenance					X				X
CP&L	Customer Calls					X				
CP&L	Customer Service Management				X	X				
CP&L	ED Construction				X					
CP&L	Energy Control Training Center					X				
CP&L	Energy Supply Management and Finance					X				
CP&L	Engineering					X	X			
CP&L	Engineering & Programs					X				
CP&L	Fiber Construction							X		
CP&L	Field Payments				X					
CP&L	Gas & Oil Supply (Long-Term)				X	X				
CP&L	Gas & Oil Supply (Short-Term)				X	X				X
CP&L	Gas Central Remittance Processing				X					
CP&L	Gas Customer Service				X					
CP&L	Generation Expansion				X	X				X
CP&L	GES MGMT & Finance				X	X			X	
CP&L	Labor Charge Back					X				
CP&L	Management & Oversight					X				
CP&L	Mass Marketing				X	X				
CP&L	Mass Product Support				X	X				
CP&L	Mass Sales				X	X				
CP&L	Materials & Contracts Support					X				
CP&L	Metering Services					X				
CP&L	Nuclear Analytical Services					X				
CP&L	Nuclear Information Technology	X				X				
CP&L	Nuclear Management					X				
CP&L	Operations Support					X				X
CP&L	Performance Solutions				X	X				
CP&L	Plant Operations - Fuel, Water & Facilities Monitoring					X				

VII. B. Table of Services Provided to Each Legal Entity by Utility and Associate Companies

Jan 2001 - Dec 2001

Provider Company	Product/Shared Service	Service Company	Holding Company	CP&L	NCNG	FPC	Electric Fuels	Progress Telecom	SRS	Monroe Power
CP&L	Plant Operations - Planning & Work Mgmt.					X				
CP&L	Power Ops Management & Finance				X	X	X			X
CP&L	Power Trading					X				X
CP&L	Power Trading Support				X	X				X
CP&L	Regulatory, Assessment & Oversight					X				
CP&L	Sales				X	X				
CP&L	Sales Tracking				X	X			X	
CP&L	Systems Planning					X				X
CP&L	T&D Contract Services					X				
CP&L	Technical Services Support					X	X			X
CP&L	Transition Expenses		X			X				
CP&L	Transmission/distribution support					X				
EFC	Coal Procurement & Transportation			X		X				
FPC	Business Operations - Environmental Support									
FPC	C/I/G Marketing			X						
FPC	C/I/G Product Support			X						
FPC	C/I/G Sales			X						
FPC	Core Environmental Services			X						
FPC	CT Operations/Maintenance			X						
FPC	Customer Calls			X	X					
FPC	Customer Service Management			X						
FPC	Distribution Design			X						
FPC	Energy Control Training Center			X						
FPC	Energy Delivery Engineering									
FPC	Energy Supply Management and Finance			X						
FPC	Engineering			X						
FPC	Engineering & Programs			X						
FPC	Fiber Construction							X		
FPC	Field Telecommunications									
FPC	FSS - Cash Management	X					X			
FPC	FSS - Claims	X					X			
FPC	FSS - Executive Benefits Management	X					X			
FPC	FSS - Financial and Insurance Risk Management	X					X			
FPC	FSS - Insurance	X					X			
FPC	FSS - Internal Audit	X					X			
FPC	FSS - Legal Services	X					X			

VII. B. Table of Services Provided to Each Legal Entity by Utility and Associate Companies

Jan 2001 - Dec 2001

Provider Company	Product/Shared Service	Service Company	Holding Company	CP&L	NCNG	FPC	Electric Fuels	Progress Telecom	SRS	Monroe Power
FPC	FSS - Payroll	X					X			
FPC	FSS - Tax Administration	X					X			
FPC	Gas & Oil Supply (Long-Term)			X						
FPC	Gas & Oil Supply (Short-Term)			X						
FPC	Generation Expansion			X						
FPC	GES MGMT & Finance			X						
FPC	Information Technology Services	X								
FPC	Management & Oversight			X		X				
FPC	Mass Marketing			X						
FPC	Mass Product Support			X						
FPC	Mass Sales			X						
FPC	Materials & Contracts Support			X						
FPC	Metering Services			X						
FPC	Nuclear Analytical Services			X						
FPC	Nuclear Information Technology			X						
FPC	Nuclear Management			X						
FPC	Operations Support			X						
FPC	Performance Solutions			X						
FPC	Plant Operations - Fuel, Water & Facilities Monitoring			X						
FPC	Plant Operations - Planning & Work Mgmt.			X						
FPC	Power Ops Management & Finance			X						
FPC	Power Trading			X						
FPC	Power Trading Support			X						
FPC	Regulatory, Assessment & Oversight			X						
FPC	Sales			X						
FPC	Sales Tracking			X						
FPC	Systems Planning			X						
FPC	T&D Contract Services			X						
FPC	Technical Services Support			X						
FPC	Transmission/distribution support			X						
NCNG	C/I/G Marketing			X						
NCNG	C/I/G Sales			X						
NCNG	ED Construction			X						
NCNG	GES MGMT & Finance			X		X			X	
NCNG	Mass Marketing			X						
NCNG	Mass Sales			X						

VII. B. Table of Services Provided to Each Legal Entity by Utility and Associate Companies

Jan 2001 - Dec 2001

Provider Company	Product/Shared Service	Service Company	Holding Company	CP&L	NCNG	FPC	Electric Fuels	Progress Telecom	SRS	Monroe Power
SRS	Controls Maintenance			X						

Note: Matrix is based on 2001 Budgets.

PROGRESS ENERGY, INC.

ASSESSMENT OF SERVICE COMPANY AFFILIATE TRANSACTIONS

May 2001

BARYENBRUCH & COMPANY

PROGRESS ENERGY, INC.
ASSESSMENT OF SERVICE COMPANY AFFILIATE TRANSACTIONS

TABLE OF CONTENTS

I - INTRODUCTION

Purpose Of This Study

This study was undertaken in advance of a possible NCNG rate case to evaluate the Service Company's cost accumulation and assignment process to determine if it:

- Is equitable in allocating expenses to the Progress Energy affiliates
- Does not result in ratepayers subsidizing non-regulated businesses, and
- Is substantially in compliance with various regulatory commitments.

Study's Scope and Approach

The following assessment criteria was used to judge Progress Energy's affiliate transactions:

- **Arms-Length Nature** – Transactions are structured and valued in a manner similar to dealings with non-affiliates.
- **Ratepayer Indifference** – All things considered, affiliate transactions have no negative financial or service-related impact on ratepayers.
- **No Preferences** – There is no direct or indirect preferential treatment given to one subsidiary over another; non-regulated businesses are not being subsidized by utility operations.
- **Close Management Attention** – There is continuous management scrutiny given to the appropriateness of affiliate transactions.
- **Equity** – Allocation methods are structured in a way that reflects benefits received.
- **Clear Documentation** – Documentation exists to provide understandable and rationale direction for Progress Energy staff involved in affiliate transactions.
- **Consistency** – There is uniformity of application of affiliate transaction guidelines.

This study was conducted through interviews with Service Company personnel involved with affiliate transactions and analysis of data. It was determined there was no need to conduct a detailed review of transactions.

Study's Conclusions

Progress Energy's affiliate transaction processes and systems are very well designed and executed. The results are a fair and equitable distribution of Service Company costs to affiliates. Progress Energy was found to be in full compliance with the aspects of the Code of Conduct pertaining to Service Company cost accumulation and assignment. No instances were found where regulated utility companies were subsidizing non-regulated affiliates.

II - BACKGROUND

Overview of Progress Energy, Inc.

As of March 1, 2001, the major corporate entities of Progress Energy, Inc. are shown in Exhibit 1. The table below shows each major group's size in terms of assets and number of employees.

		Assets at 6/30/00 (millions)	Employees at 12/31/00
Progress Energy	holding company	$10.5	-
CP&L (A)	regulated electric utility	$10,534.5	5,550
NCNG	regulated gas utility	$379.2	410
Florida Power	regulated electric utility	$6,856.7	3,999
Monroe Power	exempt wholesale generator (non-regulated)	$50.2	4
Electric Fuels (B)	energy & transport services (non-regulated)	$2.0	66
Progress Telecom	telecom services (non-regulated)	$244.9	203
SRS	energy services business (non-regulated)	$8.7	326
Service Company	corporate and shared services provider to Progress Energy affiliates		1,479
	Total	$18,086.7	12,037

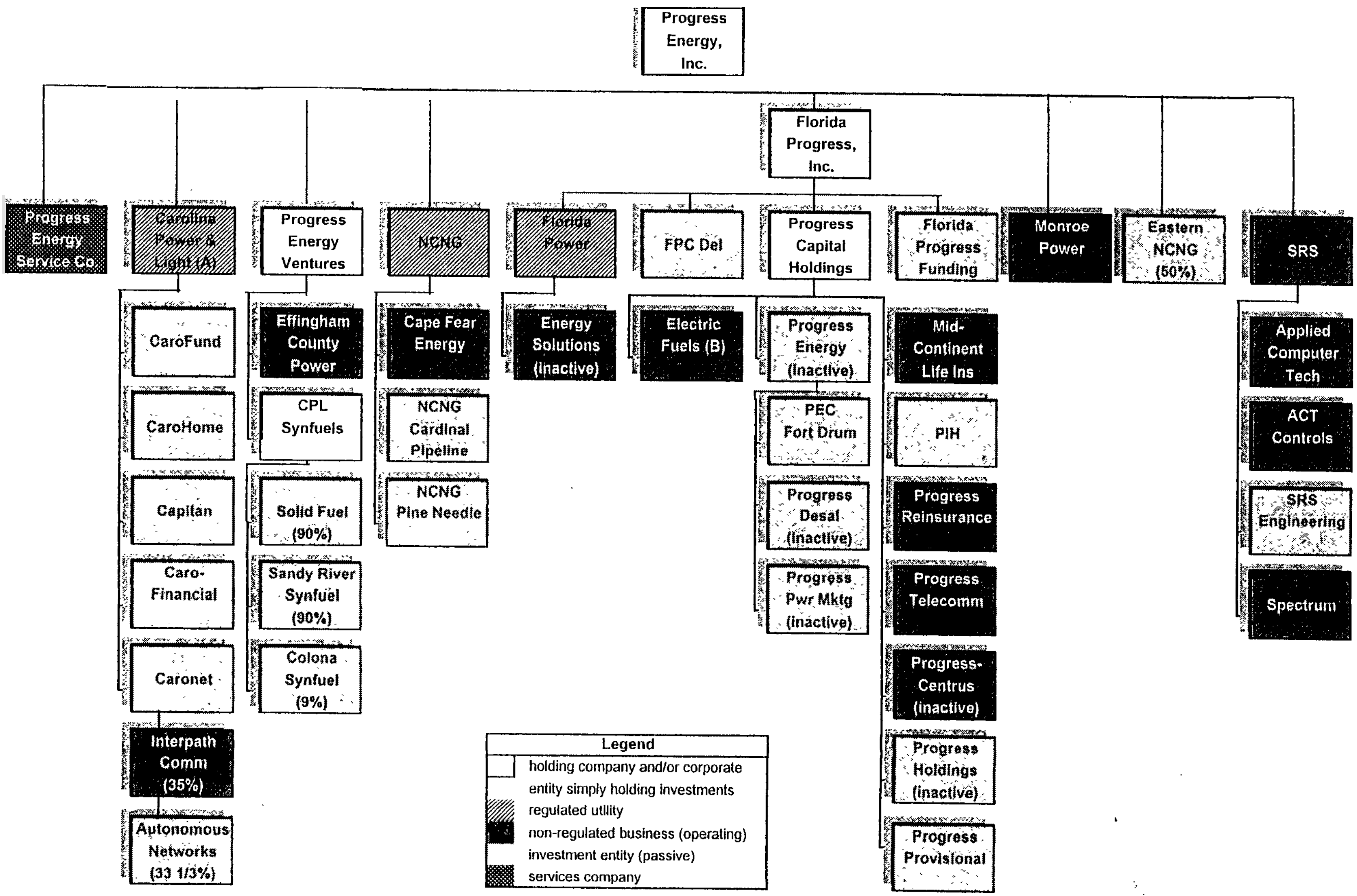
Note A: Assets and employees include those of the Energy Ventures Business Unit which is engaged in certain non-regulated business activities. Progress Energy plans to establish Energy Ventures as a separate legal entity when all necessary regulatory approvals have been obtained for its planned business activities.
Note B: Assets and employees numbers are only those of the Electric Fuels holding company. Not included are assets and employees (over 4,000) of Electric Fuels' many subsidiaries

Within the regulated subsidiaries there are a few non-regulated businesses, which are treated (accounted for) as below-the-line activities. Among these activities are the following:

- CP&L: Energy Ventures, T&D Services, Bulk Power Marketing, Timber Sales, Caronet, CaroFund, CaroHome, CaroFinancial, Capitan, Interpath Communications
- NCNG: Cape Fear Energy, NCNG Cardinal Pipeline, NCNG Pine Needle Investment
- FPC: Energy Solutions
- Service Company: Statusgo.com, an IT service provider with no fixed assets of its own. Its profits are used to reduce the IT charges to Service Company customers. Statusgo.com was a CP&L initiative until it was transferred to the Service Company on Aug 1, 2000.

Exhibit 1

Progress Energy, Inc.
Major Corporate Structure as of March 1, 2001



Note A: CP&L also conducts below-the-line non-regulated business activities
Note B: Not shown are the many subsidiaries owned by Electric Fuels

Overview of Affiliate Transactions

In the past few years, there have been several key events that have resulted in an expansion of the number of Progress Energy affiliates:

- July 15, 1999 – CP&L acquired NCNG which continued to operate as a separate subsidiary of Progress Energy
- June 19, 2000 – Carolina Power & Light reorganized into a holding company structure (exempt public utility holding company) through the creation of CP&L Holdings (later CP&L Energy)
- August 1, 2000 – Service Company established to provide corporate staff and shared services to holding company affiliates; this date co-insides with the date the new financial system went into production
- November 30, 2000 – Florida Progress acquisition closes, Progress Energy becomes a registered public utility holding company.

When Progress Energy became a registered public utility holding company, the corporation's affiliate transactions came under the regulation of the SEC. Previously, only the state commissions regulated affiliate transactions. The Code of Conduct (Exhibit 2) embodies the Company's various regulatory commitments associated with affiliate transactions.

The Company's cost recovery approach for affiliate transactions has changed with its corporate structure over the past two years:

- Before Service Company (pre-August 2000) – Costs incurred by CP&L in support of other affiliates were captured via projects in the accounting system (Financial and Information Management System); these charges were then charged to the benefiting affiliate. Applicable overheads (benefits, taxes, work location costs) were loaded onto any labor charges. No "corporate" expenses were allocated to affiliates.

- Before Registered Holding Company Status (from August 2000 through December 2000) – This was a transition period prior to implementation of the work order billing system. The cost of direct Service Company work for affiliates was captured via projects in the new financial system and charged to benefiting affiliates. Other Service Company expenses were allocated to affiliates based on an allocation percentage for each FERC account. One hundred percent of Service Company expenses were not necessarily assigned to affiliates (the residual remained in the Service Company).

- Since Registered Holding Company Status – (Jan 2001 to date) – Service Company follows SEC rules, including: zero net income (i.e., all costs must be assigned to affiliates), costs are charged to products/services, use of a work order accounting system, employee time reporting and clearing accounts to assign certain general overhead items.

Progress Energy, Inc.
Code of Conduct

General Standards

1. Equal Treatment – Utilities may not show preference to customers of non-regulated affiliates
2. Cross-Subsidies – Utilities may not subsidize non-regulated affiliates
3. Separation – Utilities and non-regulated affiliates must operate independently of each other, except for the sharing of certain services and assets for which costs must be assigned according to Section D of this code of conduct
4. Disclosure of Customer Information – Utilities may not provide non-regulated affiliates with customer information it would not provide to non-affiliates
5. Disclosure of Confidential System Operations Information – Utilities may not disclose to non-regulated affiliates confidential system operations information except to the extent it is covered by a service agreement approved by the commission

B. Non-Discrimination and Information Standards

1. Equal Service – Requests for service and tariffs must be applied to non-regulated affiliates in the same manner as applied to customers
2. No Representation of Preferences – Utilities may not represent or actually provide any preferences to non-regulated affiliates in connection with electric, gas or communications services
3. No Service Ties – No utility will tie the provision of service to a customer's purchasing goods or services from a non-regulated Progress Energy entity
4. Service Advisement – Utility employees providing information about services from non-regulated affiliates must inform customers that those services may be available from non-affiliated suppliers

C. Marketing Standards

1. Joint Marketing – Utilities may participate in joint marketing and sales efforts with non-regulated affiliates only if such arrangements are also available to non-affiliates. However, CP&L, NCNG and a gas marketing affiliate may not engage in joint sales, nor may NCNG provide sales leads to a gas marketing affiliate.
2. Use of Utility Names and Logs – Non-regulated affiliates may not use utility names or logs in any communications without certain disclaimers.
3. Speaking On Behalf – Progress Energy personnel may not give the appearance that non-regulated affiliates speak on behalf of the utilities.
4. Advantage – Progress Energy personnel may not indicate to a third party that any advantage exists as a result of dealing with the a non-regulated affiliate compared to a non-affiliate.

Progress Energy, Inc.
Code of Conduct

D. Cost Allocation and Transfer Pricing Standards

1. Goods and Services – Goods and services provided by utilities to non-regulated affiliates must be charged at the higher of cost or market. Goods and services provided by non-regulated affiliates (including the Service Company) must be charged at the lower of cost or market. If utilities do not engage in competitive bidding for these goods and services, then adequate safeguards must be in place to ensure they receive service at the lowest cost in each case.
2. Cost Allocation Manual – Affiliate transactions must be recorded and accounted for according to the utilities' cost allocation manuals.
3. Service Company – A Service Company may provide Progress Energy entities with certain corporate services and functions on a joint basis.
4. Joint Purchases – Utilities may not participate in joint purchases of goods and services with non-regulated affiliates unless "specifically permitted in advance by Commission order."
5. Costs Incurred To Furnish Information – Costs that a utility incurs to furnish allowed customer information to non-regulated affiliates will be paid for by the requesting affiliate.
6. Technology – Technology and trade secrets developed by a utility may not be transferred to non-regulated affiliates without "just compensation" and the filing of notice with the Public Staff and Commission.
7. Intangible Benefits – Utilities shall receive from non-regulated affiliates compensation for intangible benefits.

E. Regulatory Oversight

1. Reporting of Transactions – Affiliate transactions must be reported according to N.C.G.S. 62-153.
2. Examination of Books and Records – The books and records of Progress Energy entities shall be open for examination by the Commission and Public Staff.
3. Natural Gas Services – If NCNG supplies any gas used by CP&L to generate electricity, it must be reported to the Commission in the annual fuel case demonstrating that the purchase was "prudent and the price was reasonable."
4. Gas Disclosures – NCNG shall disclose to non-affiliated electricity generators on its system the gas supply and transportation prices, characteristics and other terms of service for gas deliveries to Progress Energy entities.
5. NCUC Filings – All gas and transportation arrangements among Progress Energy entities with a duration longer than two months, must be filed with the NCUC in advance.

F. Compliant Procedure

1. Designated Representative – Complaints about the holding company arrangement and affiliate transactions must be referred to a designated utility representative.
2. Reply Deadline – The designated representative has 15 days to notify the complainant that the complaint has been received.
3. Investigation – The utility has 60 days to investigate and respond to the complaint.
4. Complaint Log – A log of complaints must be retained for inspection by the Commission or the Public Staff.
5. Non-Resolution – If the complainant is not satisfied, the Utility must inform the Commission and the Public Staff

Progress Energy, Inc.
Code of Conduct

G. Utility Billing Format – Bills issued by Progress Energy entities for electric, gas or telecommunications services must indicate that non-payment for one regulated or non-regulated service will not produce termination for other regulated services.

H. Natural Gas/Electricity Competition – After the merger of NCNG and CP&L the Commission expects the same level of competition between the gas and electric businesses.

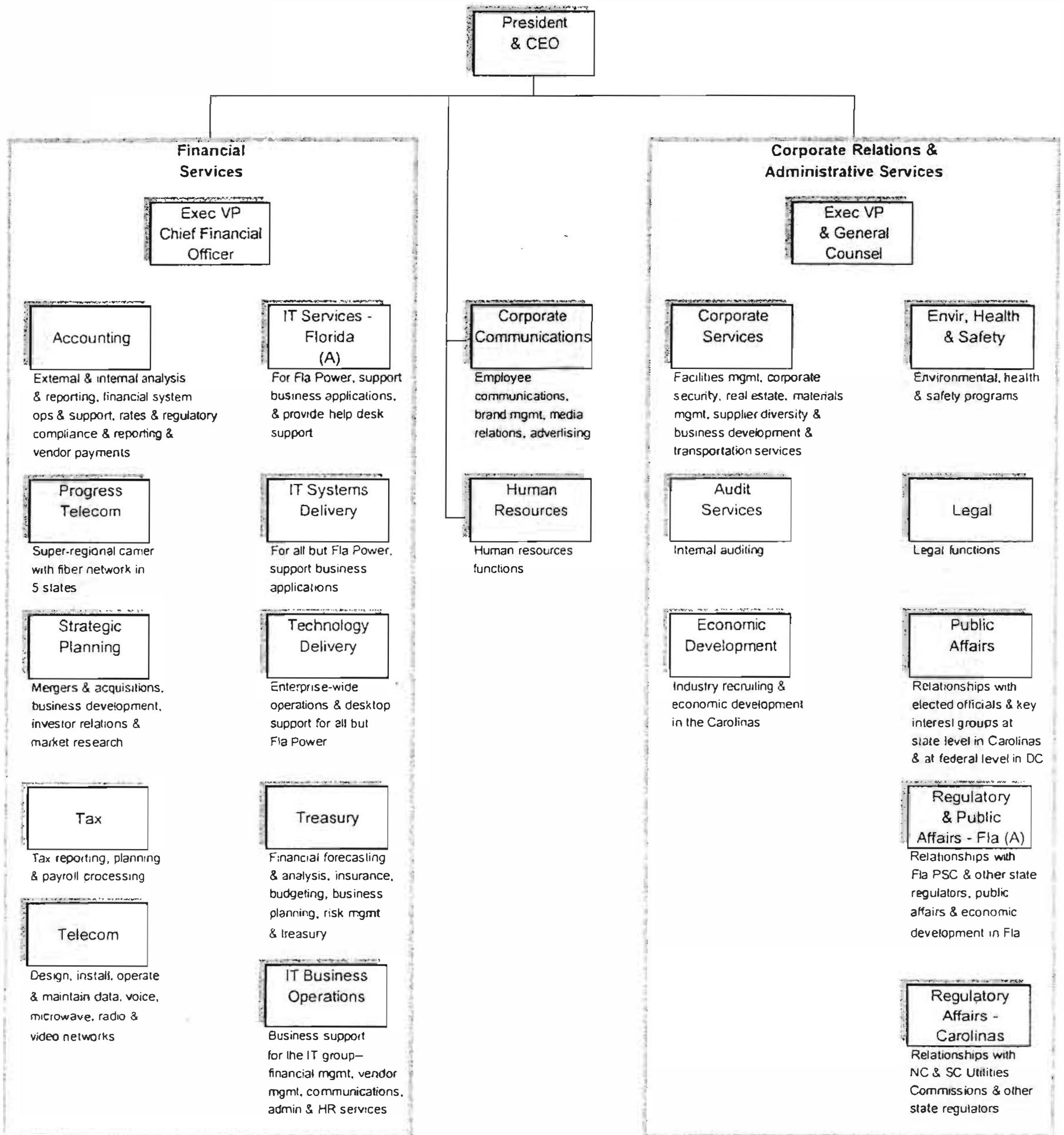
1. NCNG Expansion – NCNG will make every effort to extend the availability of natural gas to as many new customers as possible.
2. Gas Extension Standards – NCNG will apply the same criteria to decisions to extend natural gas after the merger with CP&L.
3. Best Interests of NCNG – NCNG must follow its own best interests in extending gas service, even if it is not in the best interest of CP&L.
4. Future Competition – NCNG and CP&L will continue with full scale competition even after the electric or nature has been restructured in the future.

I. Natural Gas Marketing Standards

1. Comparable Treatment – NCNG shall treat "similarly situated shippers" in the same way.
2. Availability of Information – NCNG information pertaining to interstate pipeline transportation, storage, distribution or gas supply that is provided to a gas marketing affiliate must be made available to all shippers.
3. Disclosure Agreement – NCNG must not disclose information provided by non-affiliated marketers and customers to a Progress Energy gas marketing affiliate unless those parties agree to such disclosure.
4. Separation – A gas marketing affiliate of Progress Energy must function independently of NCNG, with its personnel separated from NCNG operating personnel performing similar tasks.
5. Prohibited Functions – NCNG operating personnel may not perform any of the following functions on behalf of a gas marketing affiliate: (a) purchase gas, pipeline capacity or storage capacity, (b) market or sell gas and related services, (c) price or administer products and services, (d) hire or train gas marketing affiliate personnel, (e) offer consulting services regarding gas functions.
6. Officers and Directors – A person who is an officer or director of both NCNG and a gas marketing affiliate should not have access to market-sensitive information for more than one of the entities.
7. Proposal Criteria – NCNG must post to its criteria for evaluating proposals from Shippers on its internet web site.
8. Contacts – NCNG shall post on its internet site a list of contact persons and telephone for all gas marketers that are active on its system.

Exhibit 3

Progress Energy, Inc.
Service Company Functional Organization



Note A: Employees of these functions are employees of Florida Power Corp until January 1, 2002 when they become Service Company employees. This was necessary because the benefit programs of Florida Power Corp could not be integrated until that date.

Exhibit 4

Progress Energy, Inc.
Service Company 2001 O&M Budget (as of December 4, 2000)

	($ thousands)	
Executive Management		$ 11,426
Service Company President		$ 2,576
Corp Relations & Admin Services		
CR&AS Management		
Exec VP-Corp Rel & Adm Svcs	$ 868	
Administrative Services	$ 782	
Group Managed Account	$ (337)	
Internal Audit	$ 3,797	
Corporate Services		
Corporate Security	$ 4,967	
Corporate Services	$ 14,938	
Real Estate	$ 17,525	
Economic Development	$ 4,205	
Environmental, Health & Safety	$ 4,689	
Legal	$ 13,273	
Regulatory Affairs	$ 1,388	
Public Affairs	$ 6,007	
Total Corp Relations & Admin Svcs		$ 72,102
Financial Services		
Financial Services Management		
Fin & Info Tech Sr VP	$ 464	
Financial Services Sr VP	$ 1,614	
Accounting	$ 10,887	
Information Technology	$ 104,355	
Strategic Planning	$ 6,982	
Tax	$ 4,568	
Telecommunications	$ 51,287	
Treasury	$ 1,962	
Total Financial Services		$ 182,119
Corporate Communications		$ 22,303
Human Resources		$ 12,213
Service Company Total		**$ 302,739**

Service Company Cost Recovery

In general, all Service Company non-capital expenditures are charged to a product/service, which must be recovered from affiliates as a direct charge or indirect allocation. The following are a few exceptions to this rule:

- **Convenience Payments** – items that are not Service Company expenses, but which are paid by and charged to the Service Company's books for administrative convenience or to leverage the enterprise's buying power. The largest of these items is nuclear insurance, which is incurred by the Service Company on behalf of the Energy Supply business units of CP&L and FPC.

- **Direct Charge - Pass-Through Payments** – items charged directly to an affiliate without being charged as an expense to the Service Company. These items are managed by the Service Company but are not a Service Company expense. Examples of these items are (1) employee and executive benefits, (2) property management for non-corporate headquarters facilities, (3) customer billing expenses for CP&L and NCNG.

- **Direct Charge - Clearing Accounts** – the Service Company maintains clearing accounts for: (1) material storeroom overheads, (2) heavy duty vehicle fleet maintenance and (3) airplane operations. In these cases, Service Company expenditures are charged to the Service Company clearing account (FERC account 184). As affiliates use the applicable service (e.g., material withdrawals) the clearing account is credited and an expense charged to the affiliate. This charge is based on a pre-established unit rate that is reviewed at least annually.

When work is to be performed by the Service Company directly for an affiliate, a project is set up in the financial system to capture its costs and automatically send the charges to the affiliate. Project-related costs are designated with a product/service code so that a project is, in effect, a subset of a product/service. The cost of services that are not directly charged to affiliates are allocated based on a factor that is relevant to the individual product/service.

All affiliate-to-affiliate work (e.g., CP&L for NCNG) is all direct billed via a project. No affiliate costs are allocated as with the Service Company. Thus, no affiliate overheads are charged to other affiliates.

At this time, all charges to affiliates are recorded at cost, as prescribed by the SEC. The Company's utility commissions prescribe a different treatment for affiliate transactions:

- Non-regulated affiliate to regulated utility – lower of cost or market

- Regulated utility to non-regulated affiliate – higher of cost or market.

The Service Company has begun a benchmarking initiative to demonstrate that the costs of its products/services are competitive.

The table below estimates total 2001 affiliate charges by the Service Company. To its O&M expenses are added certain direct charge items (defined previously) that must be charged to affiliates.

	(thousands)
2001 Service Company O&M Budget	$ 302,739
Add: Direct Charge Items--	
Employee and Executive Benefits	$ 64,016
Corporate Services Clearing Accounts (Stores, Fleet and Aircraft), Facilities Management and Customer Billing Expenses	$ 46,685
Other	$ 254
2001 Affiliate Charges	$ 413,694

The table below shows how the $413.7 million will approximately be charged to affiliates. It should be noted that some expenditures are recorded as Service Company O&M expenses although the affiliate ends up recording them as a balance sheet item (e.g., capitalized). This accounts for the fact that the affiliate income statement account charges ($294.1 million) are less than the Service Company's O&M budget ($302.7 million).

	2001 Charges Assigned		
Affiliate	Income Statement Accounts (000s)	Balance Sheet Accounts (000s)	Total (000s)
Holding Company	$ 11,020		$ 11,020
Regulated Businesses			
CP&L (A)	$ 168,334	$ 79,815	$ 248,149
NCNG	$ 11,356	$ 11,621	$ 22,977
ENCNG		$ 400	$ 400
Florida Power	$ 98,903	$ 28,157	$ 127,059
Non-Regulated Businesses			
SRS	$ 1,290		$ 1,290
Electric Fuels	$ 455		$ 455
Progress Telecom	$ 2,071		$ 2,071
Monroe Power	$ 273		$ 273
Total 2001 Affiliate Charges	$ 293,701	$ 119,993	$ 413,694

Appendix C presents how the $413.7 million total was assigned to affiliates by product/service.

Accounting Processes/System

Exhibit 5 illustrates how Service Company expenditures are accumulated by product/service. The process for each major cost component is described below.

- Adders – The top portion of Exhibit 5 shows overhead-related items that must be added to Service Company expenditures (e.g., labor, materials) to arrive at a fully-loaded cost. They include: (1) labor-related overheads (employee benefits, exceptional hours and payroll taxes) and (2) storeroom costs (corporate warehouse and location storerooms). A "burden" rate is calculated for each item by dividing the cost pool (e.g., benefits for Service Company employees) by the applicable denominator (e.g., Service Company labor expenses).

- Direct and Indirect Product/Service Costs – Represent the Service Company's own costs, which must assigned to the applicable product/service. The example in Exhibit 5 shows how an Accounting unit might assign its expense by resource type to a variety of accounting-related products/services. To these Service Company expenses are loaded the adders—labor-related adders to salaries and storeroom adders to applicable material costs.

- "Infrastructure" Costs – These can be viewed as the major expenses associated with housing and sustaining the Service Company workforce. Infrastructure costs are the Service Company's portion of the following four products/services:

  - C69 IT Infrastructure Management – Management/oversight of the enterprise IT function.
  - C74 Property Management (Corporate Headquarters) – For space occupied by the Service Company, rent, utilities, security, card access, janitorial, renovations, operations/repairs/maintenance, landscaping, food service, parking, pest control, retail tenants, vending, furniture, plants, artwork, etc. for corporate headquarters buildings.
  - S58 HR-Service Company – HR management services provided by the HR service manager and representatives assigned to the Service Company. Includes consultation & support to managers & employees in the Service Company.
  - S59 Payroll - Time entry; payroll system maintenance; payroll processing; payroll-related report production and expense report processing for Service Company employees.

  As shown on the right side of Exhibit 5, infrastructure costs are added to the other product/service costs and assigned to affiliates as an indirect allocation. No infrastructure costs are assigned to the costs directly billed to affiliates.

Progress Energy Service Company
Cost Accumulation & Distribution Process

Cost Accumulation

Adders

Labor

		Svc Co	CP&L	NCNG			Svc Co	CP&L	NCNG
Employee Benefits	$ amount => (assignment based on number of employees)				converted to "burden" rate	Benefits	$	$	$
						Div by Total PR	$	$	$
						= Burden Rate	%	%	%
Exceptional Hours	$ amount =>					Exceptional Hours	$	$	$
						Div by Total PR	$	$	$
						= Burden Rate	%	%	%
Payroll Taxes	$ amount =>					Payroll Taxes	$	$	$
						Div by Total PR	$	$	$
						= Burden Rate	%	%	%

Stores

		Svc Co	CP&L	NCNG		Svc Co	CP&L	NCNG
Corporate	Corp purchasing & matls-related expenses				Corporate Stores	$	$	$
					Div by Mat'l Issues	$	$	$
					= Burden Rate	%	%	%

		SR 1	SR 2	SR 3	SR 4	SR 5			SR 1	SR 2	SR 3	SR 4	SR 5	...
Locational	Location-specific matls & storage-related expenses							Corporate Stores	$	$	$	$	$	$
								Div by Mat'l Issues	$	$	$	$	$	$
								= Burden Rate	%	%	%	%	%	%

Product/Svc Expenses (Direct & Indirect Billings)

Service Co organizations assign their budget to products/services

Organization	Resource Type	C45	S30	S31	S32	S33	...
FS - Accounting	Labor	$	$	$	$	$	
	Materials	$	$	$	$	$	
	Outside Labor	$	$	$	$	$	
	Other	$	$	$	$	$	

	Resource Type	C01
Exec Benefits	Other	$

(Service Co's assigned amount based on third party administrator analysis)

Adders loaded

	Products/Services C45	S30	S31	S32	S33	...
Benefits	burden rate (above) x payroll					
Exceptional Hours	burden rate (above) x payroll					
Payroll Taxes	burden rate (above) x payroll					
Corporate Stores	burden rate (above) x material issues					
Locational Stores	burden rate (above) x material issues					
Product/Service Total	$	$	$	$	$	$

Infrastructure Expenses

	Resource Type	C74			Products/Services C45	C06	C07	C22	C08	...
*Property Mgmt (Management of corp HQ facilities expenses, excl lease expenses)	Labor	$	→	allocated based on PEB & OHS sq ft	$	$	$	$	$	$
	Materials	$			$	$	$	$	$	$
	Outside Labor	$			$	$	$	$	$	$
	Other	$			$	$	$	$	$	$
				Product/Service Total	$	$	$	$	$	$

	Resource Type	S58			Products/Services C45	C06	C07	C22	C08	...
Human Resources (Svc Co HR only in this product code)	Labor	$	→	allocated based on Svc Co headcount	$	$	$	$	$	$
	Materials	$			$	$	$	$	$	$
	Outside Labor	$			$	$	$	$	$	$
	Other	$			$	$	$	$	$	$
				Product/Service Total	$	$	$	$	$	$

	Resource Type	C69			Products/Services C45	C06	C07	C22	C43	...
*Info Technology (Enterprise IT management)	Labor	$	→	allocated based on IT Distributed Cost Ratio	$	$	$	$	$	$
	Materials	$			$	$	$	$	$	$
	Outside Labor	$			$	$	$	$	$	$
	Other	$			$	$	$	$	$	$
				Product/Service Total	$	$	$	$	$	$

	Resource Type	S59			Products/Services C45	C06	C07	C22	C43	...
*Payroll (Svc Co PR Taxes)	Labor	$	→	allocated based on Svc Co headcount	$	$	$	$	$	$
	Materials	$			$	$	$	$	$	$
	Outside Labor	$			$	$	$	$	$	$
	Other	$			$	$	$	$	$	$

* Note: These infrastructure expenses represent only Svc Co's portion of the total product/service

Product/Service Cost Distribution

	Adders & Prod/Svc Expenses	Less: Direct Billings (A)	Add: Infrastructure Expenses	Equals: Indirect Allocation
C45-Acctg Mgmt	$	$	$	$
S30-G/L Acctg	$	$	$	$
S31-Prop Acctg	$	$	$	$
S32-Disburs	$	$	$	$
S33-Rev Acctg	$	$	$	$

Note A: The two types of direct billings (Direct Project Billed & Direct Assignment) are not assigned any infrastructure-related costs

The primary systems for accumulating costs are Oracle General Ledger, Oracle Project Accounting and the Work Order Billing System. Subsystems include Payroll, (time and expense reporting for labor), Oracle Accounts Payable (vendor invoices), Oracle Supply Chain (material purchases), Vehicle Maintenance System (heavy equipment fleet maintenance) and the IT Service Department's billing system (REMAC).

Three accounting mechanisms are used to accumulate and assign Service Company costs to affiliates:

- Direct Project Billed – For work that is being performed for one affiliate and where the costs are charged directly to that affiliate. Both the service provider and recipient must be on the Oracle financial system. In this case, two projects are set up—one by the service provider and the other by the recipient to automate the cost transfer and provide a clear trail of the source of the charges.

- Direct Assignment – For work that is being performed for one affiliate and where costs are charged directly to that affiliate. Here, the service recipient has not fully implemented the Oracle application suite. The service provider's project costs are transferred to the recipient via the Oracle General Ledger.

- Indirect Assignment – This method is used where it is not possible to associate work/product costs directly with one affiliate and it is allocated to several on some pre-established basis (e.g., headcount). The Service Company's product costs are transferred to service recipients via the Oracle General Ledger.

Each of these billing methods requires precise set up and configuration of source and target data elements in order to assign costs properly. Incorrect setup and configuration will result in Service Company costs being unbilled.

Transactions are given an account code that contains the following information:

- Company – legal entity and represents the level for which a trial balance may be produced
- Line of Business – specific sub-division of the company's business such as Energy Supply and Energy Delivery
- Charge To – organization responsible for ensuring work is performed and paying for the costs incurred
- Charge By – organization responsible for expending resources in the performance of work and incurs the costs of generating revenue
- Account – subdivision of accounts established by FERC
- Project – management-defined grouping of capital, O&M and/or other costed work; a project is composed of one or more activities
- Activity – unit of work that is meaningful and measurable
- Resource Type – type of cost or resource used to perform an activity (e.g., include labor, materials, transportation costs)
- Location – physical location serving as a cost center (e.g., plant, generating unit)
- Product – captures the revenue and expenses associated with producing goods or delivering services
- Joint Owner Accounting – identifies whether a charge is to be allocated to the Power Agency (based upon their ownership interest in generating facilities operated by CP&L), a direct charge to the Power Agency or a direct charge to CP&L.

When Service Company employees enter their time into the time reporting system, they assign their hours worked to a project/task, which are linked to a product/service. Payments to vendors and contractors are assigned project/task number also linked to a product/service. In this way, the accounting subsystems can maintain cost detail by product/service.

Costs are billed to the proper affiliate via the General Ledger and the Project Accounting module. All transactions receive a project number and/or a product/service code that provides the information necessary to bill the item (e.g., directly or allocated). Cost accumulating projects are set up within the Project Accounting system by the Service Company's budget coordinators.

The Diversified Investments unit within the Service Company's Accounting Department is responsible for processing the monthly invoices for all affiliate transactions. The Work Order Billing System is used to accumulate and distribute actual costs to the appropriate affiliate. An invoice along with detailed supporting information backs up affiliate charges.

Affiliate Relationships

Service Company arrangements are structured similarly to those of outside service providers. Service agreements have been established for all affiliates doing business with the Service Company or with each other. These agreements define products and services to be provided and the methods for assigning costs to affiliates.

Service agreements also give affiliates the option to opt out of receiving shared services from the Service Company or any other affiliate (they have no choice on the corporate staff services). On this matter, the agreements state that services "...shall continue in force until terminated by Service Company or Client Company, upon not less than one year's prior written notice to the other party." The one-year notification time is entirely reasonable given the time necessary to carry out a transition that would not significantly increase costs to other affiliates who continue to obtain services from the Service Company.

The terms of Service Company services are similar to outside providers--invoices are prepared monthly (by the 20th day after month-end). From receipt of invoice, affiliates are given 30 days to pay (i.e., there is sufficient time for affiliates to review and question the charges).

Another facet of the arrangement that is similar to dealing with an outside provider is the fact that affiliates are provided a preliminary budget for the next year's Service Company charges. They are given the opportunity to review it and request changes before the budgets are finalized.

Cost Recovery Model

Progress Energy's approach to affiliate transactions meets regulatory requirements pertaining to the accumulation and distribution of Service Company expenses to affiliate companies. The parts of the Code of Conduct applicable to cost accumulation/distribution are discussed below.

- **A-2 Cross-Subsidies** – All of the Service Company's cost accumulation and assignment processes and methodologies were found to be equitable. Affiliates were found to be paying their fair share of Service Company costs.

- **D-1 Goods and Services** – Goods and services are being provided by the Service Company at cost. Progress Energy's utility affiliates have not yet engaged in competitive bidding for goods and services now provided by the Service Company. However, benchmarking will be conducted in the future in order to ensure that the Service Company is cost competitive (affiliate to affiliate services do not require benchmarking). Another factor that provides utilities with some measure of control is the annual budget process where the Service Company presents their proposed charges to utilities in the next year. The utilities scrutinize and question the budget and can negotiate adjustments as appropriate.

- **D-2 Cost Allocation Manual** – The accounting for affiliate transactions was found to follow the methods described in the Cost Allocation Manual. Other pertinent documentation are the Work Order Billing Training manual for budget coordinators and the Work Order Billing Process description developed by technical and functional staff who designed the Work Order Billing System.

- **D-3 Service Company Services** – Service Company services are designated as either "Corporate Staff" or "Shared Services." Shared Services are those addressed by this part of the Code of Conduct. They are properly being provided on a joint basis and equitably charged to Progress Energy affiliates.

- **D-4 Joint Purchases** – The Service Company has not carried out joint purchases with affiliates.

The number (around 150) and type of products/services are sufficient for describing the nature of work being provided by the Service Company. With a $300 million Service Company O&M budget and 150 activities, there is an average of $2 million per product/service. This is certainly a reasonably detailed cost increment.

Cost Accumulation

The Service Company properly creates a cost pool for each of its products/services. All the appropriate costs are included in these pools, including the following labor-related overheads:

- Employee benefits
- Payroll taxes, and
- Exceptional hours (e.g., vacation, holiday, sick time).

The process of accumulating costs is well documented and follows a correct sequence to ensure that resulting cost pool amounts pertain to the applicable products/services.

Cost Assignment

Affiliate customers are billed at the appropriate level to provide affiliates with the ability to associate Service Company charges with the products/services provided. Direct charges can be charged down to the lowest organizational unit. Indirect allocations are charged at the business unit levels shown in the table below. Business units may chose to reassign these allocated items down to lower level organizational units via journal entries.

Progress Energy (holding company)
CP&L Corporate
CP&L Energy Supply – nuclear and fossil generation
CP&L Energy Distribution – electric transmission and distribution
CP&L Retail/Energy Sales – customer service, marketing and sales
CP&L Energy Ventures – regulated and unregulated activities
NCNG
FPC Corporate
FPC Energy Supply – nuclear and fossil generation
FPC Energy Distribution – electric transmission and distribution
Electric Fuels
Progress Telecom
Monroe Power
SRS

There are plans to begin allocating charges only to the utility level for CP&L and FPC. This will reduce administrative effort and processing complexity. Direct charge items will still be charged at the lowest appropriate organizational unit.

The Company's philosophy is to direct bill where ever possible. Appendix D shows the cost assignment mechanism used for each product/service. Based on the nature of products/services, most assignment mechanisms are appropriate (i.e., the process is designed to direct charge where possible).

Indirect allocations are being assigned on an appropriate basis. Appendix E shows the metrics for allocating each product/service. In general, the allocation factor (found in the middle of this appendix) was found to be equitable given the nature of the products/services and the benefits to affiliates.

The review cycle for each product/service's allocation metric was found to be timely. At some point in the future, the Service Company plans to replace the Modified Massachusetts formula with another that is more acceptable to the SEC, which may place more emphasis on affiliate O&M expenses.

Accounting/Billing Process

Service Company bills are sufficiently detailed to provide affiliates with information on what they are being charged. The bill lists charges for the month for each product/service and is backed up by reports that further detail the amounts by direct bill/assignment and indirect allocation. In addition, affiliate budget coordinators are able to query the billing data via Business Objects in order to drill down into detailed transaction information.

There are adequate internal controls to ensure that affiliate transactions are being properly accounted for. Every product/service is assigned to a budget coordinator who monitors the monthly residual status. A number of detailed monitoring reports exist, including:

- Direct Project Billing Cross Reference Report
- Charge To Service Company Exceptions Report
- Shared Utility Charge To Exceptions Report
- Servco Percent Allocation Validation Report
- Summary 2 Trial Balance.

Affiliate (and Service Company) financial personnel have access to Business Objects which is a powerful report writing tool that provides access to the lowest level detailed transactions. Business Objects gives organizations the ability to monitor and track their Service Company charges.

Appendices

Progress Energy Services Company
Products/Services By Service Company

(As of March 31, 2001)

Service Company Group/Department		Product	Description	Holding Co	CP&L (Corp)	CP&L ED	CP&L ES	CP&L Retail	En Ventures	NCNG	FPC (Corp)	FPC ES	FPC ED	Elect Fuels	Prog Telecom	SRS	Monroe
				Progress Energy Affiliate Company													
Executive		C01 - Executive Management	Provides management oversight across the entire Holding and Service Company	X		X	X	X	X	X		X	X	X	X	X	X
		C82 - EEI Dues	Edison Electric Institute professional dues			X	X					X	X				
President		C83 - Service Company President	Provides management oversight across the entire Holding and Service Company.	X		X	X	X	X	X		X	X	X	X	X	X
Corp Relations & Administrative Services		C06 - CR & AS Group Management	Provides management oversight across the entire Administrative Services and Corporate Relations Group.	X		X	X	X	X	X		X	X	X	X	X	X
		C63 - Admin Service Group Management	Provides management oversight across the entire Administrative Services Group.	X		X	X	X	X	X		X	X	X	X	X	X
	Audit	C07 - Internal Audit	Provide an independent and objective appraisal of the adequacy of business controls and effectiveness and efficiency of company operations. Includes financial, information technology, operations, environmental, and health and safety audits. Also includes administration of the Corporate Ethics Program and business controls education.	X		X	X	X	X	X						X	X
	Corporate Services	C08 - Corporate Services Management	Provides management oversight across the entire Corporate Services function. Also includes facilities management governance services and other department activities not readily assignable to a specific product/service.			X	X	X	X	X		X	X				
		C09 - Employee ID Cards-Corp	Produce and maintain employee ID cards, including the database			X	X	X	X	X		X	X		X		
		C11 - Real Estate	Buy, sell, lease, and develop real estate. Provide lake, timber, and land management. Coordinate and support right-of-way activities.			X	X	X	X	X		X	X				
		C12 - Nuclear Access Authorization/ Physical Security	Access Authorization, Nuclear Background Investigations and Fitness for Duty Programs. Nuclear security programs support through program implementation assistance, management of nuclear safeguards information, commonality, industry best practices, assessment.				X					X					
		C13 - Physical Security Invest/EAP	Executive and headquarters protection services, professional investigative and physical security services, proprietary information protection, employment, background investigations and workplace violence prevention programs. Managed EAP designed to effectively support employees and their families. Subsidiary Drug and Alcohol testing Program management and workplace violence intervention services.			X	X	X	X	X		X	X		X	X	X
		C15 - Corporate Air (fixed)	Maintain and pilot corporate aircraft. Includes lease of aircraft, hangar fees, pilots' salaries and other fixed expenses.			X	X	X	X	X						X	X
		C16 - Records and Procedures	Provide governance services, common programs/standards, contract management for records and procedure/controlled document needs (outside nuclear QA)			X	X	X	X	X		X	X				X
		C74 - Property Management (Corp HDQ)	Full service management of facilities (including rent, utilities, security, card access, janitorial, renovations, operations/repairs/maintenance, landscaping, food service, parking, pest control, retail tenants, vending, furniture, plants, artwork, etc.) for corporate headquarters buildings.			X	X	X	X	X					X		
		C80 - Corporate Leases	Manage facilities for future use.			X	X	X	X								
		S01 - Fleet Management	Provides management oversight of fleet purchases, operations and maintenance services and DOT and DOE regulatory compliance activities.			X	X	X	X	X		X	X				
		S03 - Property Management (System)	Same as above for administration, crew, shop, and other buildings throughout the CP&L system (Power Operations, Nuclear Generation, EDG, Shared Services, and other Groups, including subsidiaries).			X				X							
		S04 - Facilitites Project Management	Facility planning and programming from conceptual need identification to design construction and occupancy. Includes budget and schedule preparation for each facility and an annual integrated 5-year facilities plan for the Company. Facility engineering,			X	X			X		X	X				

Progress Energy Services Company
Products/Services By Service Company

(As of March 31, 2001)

Service Company Group/Department	Product	Description	Holding Co	CP&L (Corp)	CP&L ED	CP&L ES	CP&L Retail	En Ventures	NCNG	FPC (Corp)	FPC ES	FPC ED	Elect Fuels	Prog Telecom	SRS	Monroe
			Progress Energy Affiliate Company													
	S06 - Contracts/Leasing	Identifies sources, prepares contracts for services and leasing and resource sharing..			X	X	X	X								X
	S11 - Oil-Filled Equipment Repairs	Repair transformers and other oil-filled equipment and test rubber goods (lineman's safety equipment). Also includes PCB and oil handling.			X											
	S13 - Research and Technical Data	Conduct negotiation/management and application support for industry standards, technical documents, and common business research tools; direct research support for critical business decisions.			X	X	X	X	X		X	X				
	S14 - Mail Services	Manage labor, supplies, equipment, postage, and contracts in support of corporate mail operations (excluding printing and mailing bills).			X	X	X	X	X		X	X	X			
	S15 - Copy Center Services	Manage program and contracts to provide copy equipment, maintenance, supplies, and paper in user locations and for bulk and special copy services.			X	X	X	X	X							
Economic Dev	C43 - Economic Development	Provide services associated with promoting economic development within our service territory. This includes attendance at trade shows and events to represent the company; recruitment of businesses; assistance with strategic planning for communities to aid in attracting businesses; facility location services; assistance to local, state, and regional allies with attracting businesses, etc.	X		X	X	X	X	X							
Environmental, Health & Safety	C33 - Corporate EHS Management	Provides management oversight across the entire Corporate Environmental, Health and Safety function.			X	X	X	X	X		X	X		X		
	C34 - Regulatory Affairs/Technical Support	Develops programs and procedures; tracks regulatory issues; reviews events; investigates accidents and operating experiences; keeps records on compliance; tracks contractor safety for shared services/retail sales; provides health and safety support; provides industrial hygiene support.			X	X	X	X	X		X	X				X
	C36 - Energy Supply Safety Services	Implements health and safety policies and procedures; performs hazard analyses and compliance assessments; performs health and safety training; performs accident investigation and analyses.				X										
	C37 - Energy Delivery Safety Services	Implements health and safety policies and procedures; performs hazard analyses and compliance assessments; conducts health and safety training; performs accident investigation and analysis.			X											
	C38 - Retail Gas/Pipeline Safety	Implements health and safety policies and procedures; performs hazard analysis and compliance assessments; performs health and safety training; conducts accident investigation and analysis; performs DOT pipeline safety (RSPA) drug/alcohol testing and training.							X							
	C39 - Occ. Health Services	Implements OH policies and procedures; conducts medical evaluations (nuclear, fossil, pipeline safety); performs medical surveillance (lead, asbestos, hearing conservation); conducts free climbing medical fitness tests; evaluates ergonomics of work activities.				X										
	C40 - DOT Motor Carrier Safety	Conducts driver (CDL) qualification; performs drug/alcohol testing and training; conducts medical evaluations.			X											
	C41 - Workers' Compensation	Performs claims management, case management, TPA coordination and workers compensation oversight. Includes the costs to maintain the reserve for workers' compensation (self-insurance).			X	X	X	X	X		X	X	X	X		
	C42 - Environmental Services	Provides environmental services.	X		X	X	X	X	X		X	X			X	X
Legal	C17 - Legal Services	All activities associated with providing legal services and support in all matters related to company operations and relations for consolidated or Services Company. Also provides management oversight across the entire function.	X		X	X	X	X	X						X	X

Progress Energy Services Company
Products/Services By Service Company

(As of March 31, 2001)

Service Company Group/Department		Product	Description	Holding Co	CP&L (Corp)	CP&L ED	CP&L ES	CP&L Retail	En Ventures	NCNG	FPC (Corp)	FPC ES	FPC ED	Elect Fuels	Prog Telecom	SRS	Monroe
		C18 - Corporate Secretary	Coordination of Board of Directors ("BOD") activities and handling shareholder relations, including related corporate governance activities and shareholder services.	X													
		C19 - Claims	Provides investigation and settlement support and payment of general liability and motor vehicle accidents against the Company. Coordinates the collection of monies owed to Company for damage to Company facilities and equipment as a result of third party negligence.			X	X	X	X	X							
	Regulatory Affairs	C20 - Regulatory Affairs	Manage retail regulatory issues and activities with the utilities commissions in North and South Carolina, and provide support for federal and state legislative affairs regarding retail matters. Obtain state utilities commissions' approvals of all Company initiatives.			X	X	X	X	X							
	Public Affairs	C21 - Public Affairs	Influencing legislation and shaping public policy & opinion on major corporate issues; ally development and training for NC & SC allies; support for "Citizens for a Brighter Carolina" group; monitoring & tracking legislation, building goodwill & relationships at the Fed., NC & SC state levels.	X													
Financial Services Group		C44 - Fin Svcs Group Exec Management	Provides management oversight across the entire Financial Services Group.	X		X	X	X	X	X		X	X	X	X	X	X
		C75 - Finance Executive Management	Provides management oversight across the entire Finance Group.	X		X	X	X	X	X		X	X	X	X	X	X
	Accounting	C45 - Accounting Management	Provides management oversight across the entire Accounting function.			X	X	X	X	X		X	X				
		C46 - Management Reporting	Develops and distributes cost reports, and develops and coordinates materials presented to the Board of Directors and its committees.	X		X	X	X	X	X		X	X				
		C47 - Financial Reporting	Develops internal and external financial reports and profit/loss reports.	X'		X	X	X	X	X		X	X	X	X	X	X
		C49 - Benchmarking	Develops benchmarking processes to support cost vs market and quality of service comparisons.	X		X	X	X	X	X		X	X	X	X	X	X
		C52 - Rates	Develops and implements jurisdictional rates and competitive pricing options; provides embedded and marginal cost-of-service expertise and analyses in support of rate development and strategic business unit needs; provides expertise and guidance in the application of state and FERC rate schedules, riders and service regulations.			X	X	X	X	X							
		S30 - General Ledger Accounting	Maintains general ledger, account keys and journal entries; manages the monthly and annual closing process; performs bank reconciliations.	X		X	X	X	X	X							X
		S31 - Property Accounting	Maintains core fixed assets and materials records, including the entry of work orders in field organizations.			X	X	X	X	X							
		S32 - Disbursements	Enters accounts payable invoices and other invoice/payments.			X	X	X	X	X						X	X
		S33 - Revenue Accounting	Maintains certain customer accounting records; reconciles customer system to general ledger; maintains non-electric service accounts receivable system; performs revenue analysis .			X	X	X		X							
		S34 - Regulatory Accounting	Develops regulatory financial reports and consults on proper regulatory treatment of various accounting transactions; maintains records and reports on fuel-related transactions.			X	X	X		X							
		S35 - Diversified Investments	Handles all intercompany billing processes for subsidiaries of CP&L Energy. Also, maintains accounting records for certain subsidiaries.	X		X	X	X	X	X		X	X	X	X	X	X
	Information Technology	111 - Native Load Generation															
		451 - IT Services - Regulated															
		C69 - IT Infrastructure Management	Provide management oversight across the entire function.			X	X	X	X	X		X	X	X	X	X	X
		C70 - Applications Maintenance	Maintain and repair business software applications.			X	X	X	X	X		X	X	X	X	X	X

Progress Energy Affiliate Company

Progress Energy Services Company
Products/Services By Service Company

(As of March 31, 2001)

Service Company Group/Department	Product	Description	Holding Co	CP&L (Corp)	CP&L ED	CP&L ES	CP&L Retail	En Ventures	NCNG	FPC (Corp)	FPC ES	FPC ED	Elect Fuels	Prog Telecom	SRS	Monroe
			Progress Energy Affiliate Company													
	C71 - Infrastructure & Maintenance	Provides and maintains the local area data networks, wide area data networks, fiber usage, video conferencing, voice mail, as well as network support.			X	X	X	X	X		X	X	X	X		X
	S49 - Applications Develop & Enhance	Planning, design, implementation, and enhancement of business software applications.			X	X	X	X	X		X	X	X	X	X	X
	S50 - Applications Operations - Mainframe	Provide computing, data storage, and printing for business software applications running on mainframe computers.			X	X	X	X	X		X	X	X	X	X	X
	S51 - Applications Operations - HP/UNIX	Provide computing, data storage, and printing for business software applications running on HP/UNIX servers.			X	X	X	X	X		X	X	X	X	X	X
	S54 - Personal Computers	Provide personal computer hardware, software, remote access, and associated support personnel.			X	X	X	X	X		X	X	X	X	X	X
	S55 - Personal Computer Network	Provide e-mail, shared calendars, shared storage, Inter/Intranet access, and access to application servers.			X	X	X	X	X		X	X	X	X	X	X
Strategic Planning	C64 - Strategic Planning	Maintains responsibility for corporate strategic planning (does not develop long-term plans for line or individual corporate organizations).	X		X	X	X	X	X		X	X	X	X	X	X
	C67 - Market Research - Global	Provides market research services to the consolidated entity.	X		X	X	X	X	X		X	X	X	X	X	X
	C68 - Investor Relations/Funds Mgmt	Manages relations with the financial community and the performance of external trust funds.	X		X	X	X	X	X		X	X	X	X	X	X
	C79 - Market Research - Utility	Provides market research services to the utility.			X	X	X				X	X				
Tax	C50 - Tax Administration	Conducts tax planning and prepares returns, including taxes other than income.	X		X	X	X	X	X		X	X	X	X	X	X
	C77 - CP&L Tax Services	Provides CP&L Tax Services.			X	X	X	X								
	C78 - FPC Tax Services	Provides FPC Tax Services.									X	X				
	S59 - Payroll	Conducts time entry; maintains payroll system; runs payroll; produces payroll-related reports and processes employee expense reports.			X	X	X	X	X		X	X				X
Treasury	C51 - Treasury Management	Provides management oversight across the entire Treasury function.	X		X	X	X	X	X		X	X	X	X	X	X
	C54 - Cash Management	Manages the efficient movement of company funds through the banking system and secures short-term debt financing and/or investments.	X		X	X	X	X	X		X	X		X	X	
	C55 - Insurance Risk Management	Manages the corporate insurance program.	X		X	X	X	X	X		X	X	X	X	X	X
	C56 - Financial Risk Management	Measures, independently, and reports corporate risk exposures; provides risk management training, tools, controls and strategies.	X		X	X	X	X	X		X	X	X	X	X	X
	C57 - Financial Forecasting, Budgeting & Business Planning	Coordinates and develops plans and budgets for corporate and line organizations. Prepares and presents results of financial forecasts and provides financial and planning support for the regulatory and strategic planning process.	X		X	X	X	X	X		X	X	X	X	X	X
	C58 - Load Forecasting	Prepares and presents economic, load and energy forecasts.			X	X		X	X							
	C59 - Property Insurance	Property insurance premiums..			X	X	X	X	X		X	X	X	X		X
	C60 - Liability & Workers Comp Insurance	Liability and workers' compensation insurance premiums.			X	X	X	X	X				X	X		X
	C61 - Other Insurance	Crime, directors & officers, aircraft, fiduciary and special insurance premiums.			X	X	X	X	X		X	X	X	X		X
	C62 - Nuclear Premiums & Credits	Nuclear property and liability insurance credit for good experience.		X						X						
	C76 - Financial Administration Fees	Includes financial administration fees, such as bank fees.			X	X	X	X								
	S36 - Business Case Analysis	Provides analysis support for business case development for various initiatives.				X		X	X		X	X				

Progress Energy Services Company
Products/Services By Service Company

(As of March 31, 2001)

Service Company Group/Department	Product	Description	Holding Co	CP&L (Corp)	CP&L ED	CP&L ES	CP&L Retail	En Ventures	NCNG	FPC (Corp)	FPC ES	FPC ED	Elect Fuels	Prog Telecom	SRS	Monroe
			Progress Energy Affiliate Company													
Corporate Communications	C22 - Corporate Communications	Includes management oversight across the entire Corporate Communications function. Develops and distributes key company messages to external media as primary corporate spokespersons; manages company's strategic philanthropy; manages the company's brand position and ensures consistency in brand message for both internal and external audiences; directs the corporate image through advertising.coordinates support activities for special corporate events; and provides communication planning and counseling.	X		X	X	X	X	X		X	X	X	X	X	X
	C23 - Donations	Corporate donations.	X		X	X	X	X	X						X	X
	C24 - CP&L Image Advertising	Manages the company's brand position and ensures consistency in brand message for both internal and external audiences. Directs the corporate image through advertising.			X	X	X	X								
	C26 - NCNG Image Advertising	Manages the company's brand position and ensures consistency in brand message for both internal and external audiences. Directs the corporate image through advertising.							X							
	S17 - Internal Communications	Manages systems and creates tactical tools to keep employees informed and engaged about strategic business developments and their role in ensuring company success; tools include newsletters, e-mail (infobulletins), Intranet and Internet employee briefings.			X	X	X	X	X		X	X	X	X	X	X
	S18 - Customer Communications	Includes communications to Energy Delivery customers.			X											
Human Resources	C27 - Human Resources Management	Provides management oversight across the Human Resources entire function.			X	X	X	X	X		X	X		X	X	X
	C28 - Labor Relations	Provides corporate support for labor-related issues (union & non-union).			X	X	X	X	X		X	X	X	X		X
	C30 - Compensation	Administers base compensation, MICP, LTIP, deferred compensation, ECIP and other compensation programs.			X	X	X	X	X					X		X
	C31 - EEO/AA/Diversity	Provides consultation and support on affirmative action, equal employment opportunity and diversity.			X	X	X	X	X		X	X		X		X
	S19 - HRIS	Manages overall HR information; administers the PeopleSoft HR system; provides benefits administration.			X	X	X	X	X		X	X		X		X
	S20 - Policy/Pay/Benefit Admin.	Provides the employee information line, benefits administration, compensation administration, and policies/practices administration of corporate relocation services and pre-retirement seminars.			X	X	X	X	X		X	X		X		X
	S21 - Organizational Effectiveness	Designs and implements HR process improvements.			X	X	X	X	X		X	X				X
	S22 - Staffing/Recruiting	Recruits, screens, tests, interviews applicants, consults with managers on staffing plans and issues.			X	X	X	X	X							X
	S23 - Training & Development	Provides executive and personal developmental training and employee development programs. Course attendance charged by and to customer.			X	X	X	X	X		X	X				X
	S24 - HR - Nuclear Generation Group	Includes cost of the HR service manager and representatives who provide HR management. Consultation & support to managers & employees in the Nuclear Generation Group.				X		X			X					
	S25 - HR - Power Ops Group	Includes cost of the HR service manager and representatives who provide HR management. Consultation & support to managers & employees in the Power Operations Group.				X		X			X					
	S26 - HR - Energy Delivery	Includes cost of the HR service manager and representatives who provide HR management. Consultation & support to managers & employees in the Energy Delivery Group.			X							X				
	S28 - HR - NCNG	Includes cost of the HR service manager and representatives who provide HR management. Consultation & support to managers & employees in the Gas and Energy Services Group.							X							

Progress Energy Services Company
Products/Services By Service Company

(As of March 31, 2001)

Service Company Group/Department	Product	Description	Progress Energy Affiliate Company: Holding Co	CP&L (Corp)	CP&L ED	CP&L ES	CP&L Retail	En Ventures	NCNG	FPC (Corp)	FPC ES	FPC ED	Elect Fuels	Prog Telecom	SRS	Monroe
Other	C01 - Executive Management	Provides management oversight across the entire Holding and Service Company	X		X	X	X	X	X		X	X	X	X	X	X
(Benefits/Burdens)	C10 - Corp HQ Leasehold Improvements	Amortizaiton of leasehold improvement projects for corporate headquarters leased facilities.			X	X	X	X	X							
	S47 - Service Co Burden Allocation	Exceptional hours, payroll tax, benefit and stores burdens.														

Progress Energy Service Company
Products/Services By Affiliates

(As of March 31, 2001)

Provider Company	Product/Shared Service	Service Company	Holding Company	CP&L	NCNG	FPC	Electric Fuels	Progress Telecom	SRS	Monroe Power
CP&L	C/I/G Marketing				X	X				
CP&L	C/I/G Product Support				X	X			X	
CP&L	C/I/G Sales				X	X			X	
CP&L	Coal Procurement & Transportation						X			
CP&L	Community Relations				X	X				
CP&L	Core Environmental Services				X	X				X
CP&L	CT Operations/Maintenance					X				X
CP&L	Customer Calls					X				
CP&L	Customer Service Management				X	X				
CP&L	ED Construction				X					
CP&L	Energy Control Training Center					X				
CP&L	Energy Supply Management and Finance					X				
CP&L	Engineering					X	X			
CP&L	Engineering & Programs					X				
CP&L	Fiber Construction							X		
CP&L	Field Payments				X					
CP&L	Gas & Oil Supply (Long-Term)				X	X				
CP&L	Gas & Oil Supply (Short-Term)				X	X				X
CP&L	Gas Central Remittance Processing				X					
CP&L	Gas Customer Service				X					
CP&L	Generation Expansion				X	X				X
CP&L	GES MGMT & Finance				X	X			X	
CP&L	Labor Charge Back					X				
CP&L	Management & Oversight					X				
CP&L	Mass Marketing				X	X				
CP&L	Mass Product Support				X	X				
CP&L	Mass Sales				X	X				
CP&L	Materials & Contracts Support					X				
CP&L	Metering Services					X				
CP&L	Nuclear Analytical Services					X				
CP&L	Nuclear Information Technology	X				X				
CP&L	Nuclear Management					X				
CP&L	Operations Support					X				X
CP&L	Performance Solutions				X	X				
CP&L	Plant Operations - Fuel, Water & Facilities Monitoring					X				
CP&L	Plant Operations - Planning & Work Mgmt.					X				
CP&L	Power Ops Management & Finance				X	X	X			X

Progress Energy Service Company
Products/Services By Affiliates

(As of March 31, 2001)

Provider Company	Product/Shared Service	Service Company	Holding Company	CP&L	NCNG	FPC	Electric Fuels	Progress Telecom	SRS	Monroe Power
CP&L	Power Trading					X				X
CP&L	Power Trading Support				X	X				X
CP&L	Regulatory, Assessment & Oversight					X				
CP&L	Sales				X	X				
CP&L	Sales Tracking				X	X			X	
CP&L	Systems Planning					X				X
CP&L	T&D Contract Services					X				
CP&L	Technical Services Support					X	X			X
CP&L	Transition Expenses		X			X				
CP&L	Transmission/distribution support					X				
EFC	Coal Procurement & Transportation			X		X				
FPC	Business Operations - Environmental Support									
FPC	C/I/G Marketing			X						
FPC	C/I/G Product Support			X						
FPC	C/I/G Sales			X						
FPC	Core Environmental Services			X						
FPC	CT Operations/Maintenance			X						
FPC	Customer Calls			X	X					
FPC	Customer Service Management			X						
FPC	Distribution Design			X						
FPC	Energy Control Training Center			X						
FPC	Energy Delivery Engineering									
FPC	Energy Supply Management and Finance			X						
FPC	Engineering			X						
FPC	Engineering & Programs			X						
FPC	Fiber Construction							X		
FPC	Field Telecommunications									
FPC	FSS - Cash Management	X					X			
FPC	FSS - Claims	X					X			
FPC	FSS - Executive Benefits Management	X					X			
FPC	FSS - Financial and Insurance Risk Management	X					X			
FPC	FSS - Insurance	X					X			
FPC	FSS - Internal Audit	X					X			
FPC	FSS - Legal Services	X					X			
FPC	FSS - Payroll	X					X			
FPC	FSS - Tax Administration	X					X			
FPC	Gas & Oil Supply (Long-Term)			X						

Progress Energy Service Company
Products/Services By Affiliates

(As of March 31, 2001)

Provider Company	Product/Shared Service	Service Company	Holding Company	CP&L	NCNG	FPC	Electric Fuels	Progress Telecom	SRS	Monroe Power
FPC	Gas & Oil Supply (Short-Term)			X						
FPC	Generation Expansion			X						
FPC	GES MGMT & Finance			X						
FPC	Information Technology Services	X								
FPC	Management & Oversight			X		X				
FPC	Mass Marketing			X						
FPC	Mass Product Support			X						
FPC	Mass Sales			X						
FPC	Materials & Contracts Support			X						
FPC	Metering Services			X						
FPC	Nuclear Analytical Services			X						
FPC	Nuclear Information Technology			X						
FPC	Nuclear Management			X						
FPC	Operations Support			X						
FPC	Performance Solutions			X						
FPC	Plant Operations - Fuel, Water & Facilities Monitoring			X						
FPC	Plant Operations - Planning & Work Mgmt.			X						
FPC	Power Ops Management & Finance			X						
FPC	Power Trading			X						
FPC	Power Trading Support			X						
FPC	Regulatory, Assessment & Oversight			X						
FPC	Sales			X						
FPC	Sales Tracking			X						
FPC	Systems Planning			X						
FPC	T&D Contract Services			X						
FPC	Technical Services Support			X						
FPC	Transmission/distribution support			X						
NCNG	C/I/G Marketing			X						
NCNG	C/I/G Sales			X						
NCNG	ED Construction			X						
NCNG	GES MGMT & Finance			X		X			X	
NCNG	Mass Marketing			X						
NCNG	Mass Sales			X						
SRS	Controls Maintenance			X						

Progress Energy Service Company
2001 Service Company Budget By Product/Service - Consolidated Charges

(Budget as of December 4, 2000)

			CP&L Entities							Florida Progress Entities							
Service Company Group/Department	Product	Holding Company	CP&L (Corp)	Energy Distribution	Energy Supply	Retail	Energy Ventures	NCNG	Eastern NCNG	FPC (Corp)	En Supply	Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total
Executive	C01 - EXECUTIVE MANAGEMENT	$ 2,799	$ -	$ 1,845,494	$ 3,215,154	$ 67,177	$ 71,842	$ 182,870		$ -	$ 1,654,227	$ 1,913,604	$ 67,177	$ 159,545	$ 137,153	$ 13,062	$ 9,330,104
	C82 - EEI DUES	$ -	$ -	$ 363,750	$ 363,750	$ -	$ -	$ -		$ -	$ 363,750	$ 363,750	$ -	$ -	$ -	$ -	$ 1,455,000
President	C83 - SERVICE COMPANY PRESIDENT	$ 692	$ -	$ 456,547	$ 795,379	$ 16,618	$ 17,773	$ 45,239		$ -	$ 409,230	$ 473,396	$ 16,618	$ 39,469	$ 33,929	$ 3,231	$ 2,308,121
Corp Relations & Administrative Services	000 - UNSPECIFIED	$ -	$ -	$ -	$ 125,000	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 125,000
	C06 - CR & AS GROUP MANAGEMENT	$ 300	$ -	$ 197,565	$ 344,190	$ 7,191	$ 7,691	$ 19,577		$ -	$ 177,089	$ 204,856	$ 7,191	$ 17,080	$ 14,683	$ 1,398	$ 998,811
	C63 - ADMIN SERVICE GROUP MANAGE	$ 200	$ -	$ 131,841	$ 229,689	$ 4,799	$ 5,132	$ 13,064		$ -	$ 118,177	$ 136,707	$ 4,799	$ 11,398	$ 9,798	$ 933	$ 666,537
Audit	C07 - INTERNAL AUDIT	$ 1,788	$ -	$ 1,187,470	$ 2,077,805	$ 44,338	$ 47,556	$ 117,996		$ -	$ -	$ -	$ -	$ -	$ 90,464	$ 8,224	$ 3,575,641
Corporate Services	000 - UNSPECIFIED	$ -	$ 85,500	$ 17,987,961	$ 4,004,312	$ 16,590	$ -	$ 7,270,106		$ -	$ -	$ 14,600,000	$ -	$ -	$ -	$ -	$ 43,964,469
		$ -	$ -	$ 1,630,700	$ 70,000	$ -	$ -	$ 220,000		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,920,700
		$ -	$ 800,000	$ -	$ -	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 800,000
	258 - T&D TRANSFORMER SOLUTIONS	$ -	$ -	$ 70,665	$ -	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 70,665
	259 - T&D TRANSFORMER SOLUTIONS	$ -	$ -	$ 105,999	$ -	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 105,999
	C08 - CORPORATE SERVICES MGMT.	$ -	$ -	$ 1,528,827	$ 2,675,075	$ 57,312	$ 61,034	$ 151,841		$ -	$ 1,374,753	$ 1,594,327	$ -	$ -	$ -	$ -	$ 7,443,169
	C09 - EMPL. IDENT. CARDS-CORP.	$ -	$ -	$ 61,811	$ 97,670	$ 2,269	$ 4,059	$ 11,090		$ -	$ 49,250	$ 86,899	$ -	$ 6,552	$ -	$ -	$ 319,600
	C11 - REAL ESTATE	$ -	$ -	$ 281,679	$ 492,870	$ 10,560	$ 11,245	$ 27,976		$ -	$ 253,292	$ 293,747	$ -	$ -	$ -	$ -	$ 1,371,369
	C12 - NUCLEAR ACC. AUTH./PHY. SE	$ -	$ -	$ -	$ 2,702,622	$ -	$ -	$ -		$ -	$ 675,655	$ -	$ -	$ -	$ -	$ -	$ 3,378,277
	C13 - PHYS. SECURITY INVEST./EAP	$ -	$ -	$ 286,129	$ 451,968	$ 10,394	$ 18,800	$ 81,357		$ -	$ 227,895	$ 402,140	$ -	$ 30,417	$ 48,758	$ 611	$ 1,558,469
	C15 - CORPORATE AIR (FIXED)	$ -	$ -	$ 2,123,063	$ 3,430,225	$ 236,101	$ 234,871	$ -		$ -	$ -	$ -	$ -	$ -	$ 124,199	$ -	$ 6,148,459
	C16 - RECORDS AND PROCEDURES	$ -	$ -	$ 81,841	$ 129,270	$ 2,985	$ 5,390	$ 14,677		$ -	$ 65,215	$ 115,050	$ -	$ -	$ -	$ 166	$ 414,594
	C74 - PROPERTY MGMT. (CORP HDQ)	$ -	$ -	$ 1,441,493	$ 1,258,406	$ 38,681	$ 1,040,505	$ 541,527		$ -	$ -	$ -	$ -	$ 128,935	$ -	$ -	$ 4,449,547
	C80 - CORPORATE LEASES	$ -	$ -	$ 116,391	$ 204,369	$ 4,455	$ 4,785	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 330,000
	S01 - FLEET MANAGEMENT	$ -	$ -	$ -	$ -	$ -	$ -	$ -		$ -	$ 58,417	$ 317,122	$ -	$ -	$ -	$ -	$ 375,539
	S03 - PROPERTY MGMT. (SYSTEM)	$ -	$ -	$ 513,392	$ -	$ -	$ -	$ 70,008		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 583,400
	S04 - FACILITIES PROJ. MANAGEMEN	$ -	$ -	$ 130,028	$ 59,828	$ -	$ -	$ 85,190		$ -	$ 20,924	$ 156,930	$ -	$ -	$ -	$ -	$ 452,900
	S06 - CONTRACTS / LEASING	$ -	$ -	$ 104,085	$ 583,096	$ 41,689	$ 83,286	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ 104,085	$ 916,241
	S11 - OIL-FILLED EQUIPMENT REPAI	$ -	$ -	$ 2,574,540	$ -	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,574,540
	S13 - RESEARCH AND TECHNICAL DAT	$ -	$ -	$ 21,629	$ 105,451	$ 2,435	$ 4,397	$ 18,911		$ -	$ 53,187	$ 30,375	$ -	$ -	$ -	$ -	$ 236,385
	S14 - MAIL SERVICES	$ -	$ -	$ 154,260	$ 243,544	$ 4,771	$ 16,660	$ 30,973		$ -	$ 106,702	$ 195,381	$ 4,998	$ -	$ -	$ -	$ 757,289
	S15 - COPY CENTER SERVICES	$ -	$ -	$ 8,021	$ 12,668	$ 294	$ 528	$ 1,439		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 22,950
Economic Dev	C43 - ECONOMIC DEVELOPMENT	$ 2,051	$ -	$ 1,396,857	$ 2,453,217	$ 53,331	$ 57,433	$ 139,481		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,102,370
Environmental, Health & Safety	C33 - CORP. ENVIRON., H&S MGMT.	$ -	$ -	$ 242,984	$ 424,224	$ 8,959	$ 9,564	$ 24,093		$ -	$ 218,165	$ 252,670	$ 8,959	$ 21,066	$ -	$ -	$ 1,210,684
	C34 - REGULATORY AFFAIRS / TECH	$ -	$ -	$ 78,588	$ 124,133	$ 2,866	$ 5,176	$ 14,093		$ -	$ 62,624	$ 110,477	$ -	$ -	$ -	$ 159	$ 398,116
	C36 - ES SAFETY SERVICES	$ -	$ -	$ -	$ 535,329	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 535,329
	C37 - ED SAFETY SERVICES	$ -	$ -	$ 254,443	$ -	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 254,443
	C38 - RETAIL GAS/PIPELINE SAFETY	$ -	$ -	$ -	$ -	$ -	$ -	$ 65,261		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 65,261
	C39 - OCC. HEALTH SERVICES	$ -	$ -	$ -	$ 648,349	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 648,349
	C40 - DOT MOTOR CARRIER SAFETY	$ -	$ -	$ 50,000	$ -	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 50,000
	C41 - WORKERS' COMPENSATION	$ -	$ -	$ 31,449	$ 54,907	$ 1,160	$ 1,238	$ 3,118		$ -	$ 28,237	$ 32,703	$ 1,160	$ 2,727	$ -	$ -	$ 156,699
	C42 - ENVIRONMENTAL SERVICES	$ 288	$ -	$ 189,777	$ 330,623	$ 6,908	$ 7,388	$ 18,805		$ -	$ 170,109	$ 196,781	$ 6,908	$ 16,406	$ 14,104	$ 1,343	$ 959,440
Legal	C17 - LEGAL SERVICES	$ 4,068	$ -	$ 2,701,920	$ 5,382,815	$ 100,885	$ 108,207	$ 268,483		$ -	$ -	$ -	$ -	$ -	$ 205,837	$ 18,712	$ 8,790,927
	C18 - CORPORATE SECRETARY	$ 3,228,876	$ -	$ -	$ -	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,228,876
	C19 - CLAIMS	$ -	$ -	$ 1,368,323	$ 28,807	$ -	$ -	$ 43,210		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,440,340
Regulatory Affairs	C20 - REGULATORY AFFAIRS	$ -	$ -	$ 443,981	$ 779,670	$ 16,941	$ 18,244	$ 44,307		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,303,143
Public Affairs	C21 - PUBLIC AFFAIRS	$ 6,300,810	$ -	$ -	$ -	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,300,810
Financial Services Group	C44 - FSG EXECUTIVE MANAGEMENT	$ 491	$ -	$ 323,693	$ 563,926	$ 11,783	$ 12,601	$ 32,075		$ -	$ 290,145	$ 335,639	$ 11,783	$ 27,984	$ 24,056	$ 2,291	$ 1,636,467
	C75 - FINANCE EXECUTIVE MANAGEME	$ 108	$ -	$ 71,081	$ 123,835	$ 2,587	$ 2,767	$ 7,043		$ -	$ 63,715	$ 73,705	$ 2,587	$ 6,145	$ 5,283	$ 503	$ 359,359
Accounting	000 - UNSPECIFIED	$ -	$ -	$ -	$ -	$ -	$ -	$ 82,224		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 82,224
	C45 - ACCOUNTING MANAGEMENT	$ -	$ -	$ 1,450,409	$ 2,537,862	$ 54,373	$ 57,903	$ 144,052		$ -	$ 1,304,238	$ 1,512,549	$ -	$ -	$ -	$ -	$ 7,061,386
	C46 - MANAGEMENT REPORTING	$ -	$ -	$ 394,723	$ 690,669	$ 14,797	$ 15,758	$ 39,203		$ -	$ 354,943	$ 411,634	$ -	$ -	$ -	$ -	$ 1,921,727
	C47 - FINANCIAL REPORTING	$ 473	$ -	$ 311,579	$ 542,821	$ 11,342	$ 12,129	$ 30,874		$ -	$ 279,287	$ 323,078	$ 11,342	$ 26,936	$ 23,156	$ 2,205	$ 1,575,222
	C49 - BENCHMARKING	$ 25	$ -	$ 16,433	$ 28,629	$ 598	$ 640	$ 1,628		$ -	$ 14,730	$ 17,040	$ 598	$ 1,421	$ 1,221	$ 116	$ 83,079
	C52 - RATES	$ -	$ -	$ 258,694	$ 454,290	$ 9,871	$ 10,630	$ 25,816		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 759,301

Progress Energy Service Company
2001 Service Company Budget By Product/Service - Consolidated Charges

(Budget as of December 4, 2000)

Service Company Group/Department	Product	Holding Company	CP&L Entities: CP&L (Corp)	CP&L Entities: Energy Distribution	CP&L Entities: Energy Supply	CP&L Entities: Retail	CP&L Entities: Energy Ventures	NCNG	Eastern NCNG	Florida Progress Entities: FPC (Corp)	Florida Progress Entities: En Supply	Florida Progress Entities: Elect Dist	Florida Progress Entities: Electric Fuels	Florida Progress Entities: Progress Telecom	SRS	Monroe	Total
	S30 - GENERAL LEDGER ACCOUNTING	$ 83	$ -	$ 56,356	$ 99,022	$ 2,157	$ 2,323	$ 5,626		$ -	$ -	$ -	$ -	$ -	$ -	$ 382	$ 165,949
	S31 - PROPERTY ACCOUNTING	$ -	$ -	$ 93,632	$ 164,427	$ 3,573	$ 3,848	$ 9,344		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 274,824
	S32 - DISBURSEMENTS	$ -	$ -	$ 420,163	$ 288,315	$ 66,742	$ 164	$ 37,706		$ -	$ -	$ -	$ -	$ -	$ 4,335	$ 491	$ 817,916
	S33 - REVENUE ACCOUNTING	$ -	$ -	$ 86,317	$ 151,962	$ 3,354	$ -	$ 8,634		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 250,267
	S34 - REGULATORY ACCOUNTING	$ -	$ -	$ 117,396	$ 206,677	$ 4,561	$ -	$ 11,743		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 340,377
	S35 - DIVERSIFIED INVESTMENTS	$ 80	$ -	$ 52,577	$ 91,597	$ 1,914	$ 2,047	$ 5,210		$ -	$ 47,128	$ 54,517	$ 1,914	$ 4,545	$ 3,907	$ 372	$ 265,808
Information	000 - UNSPECIFIED	$ -	$ -	$ 7,635,832	$ 11,000	$ 1,705,654	$ 819,524	$ 4,359,905	$ 400,000	$ 1,883,793	$ 1,275,820	$ 14,389,816	$ -	$ 81,566	$ -	$ 24,910	$ 32,587,820
Technology		$ -	$ -	$ 2,500	$ -	$ -	$ 298,567	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 301,067
	111 - NATIVE LOAD GENERATION	$ -	$ -	$ -	$ 6,155,959	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,155,959
		$ -	$ -	$ -	$ 5,213,606	$ -	$ 41,528	$ -		$ -	$ 3,273,786	$ -	$ -	$ -	$ -	$ -	$ 8,528,920
	451 - IT SERVICES - REGULATED	$ -	$ -	$ -	$ -	$ -	$ 346,204	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 346,204
	C69 - IT INFRASTRUCTURE & MANAGE	$ -	$ -	$ 4,489,843	$ 2,190,705	$ 399,590	$ 529,841	$ 487,701		$ 552,815	$ 927,172	$ 5,371,384	$ -	$ 165,077	$ -	$ 7,101	$ 15,121,229
	C70 - APPLICATION MAINTENANCE	$ -	$ -	$ 1,971,653	$ -	$ -	$ -	$ -		$ 503,500	$ 67,887	$ 3,619,211	$ -	$ -	$ -	$ -	$ 6,162,251
	C71 - INFRASTRUCTURE & MAINTENAN	$ -	$ -	$ 6,299,451	$ 2,738,892	$ 273,889	$ 547,778	$ 821,668		$ 3,012,781	$ 4,382,227	$ 5,477,784	$ -	$ -	$ -	$ -	$ 23,554,470
	S49 - APPL. DVLPMT & ENHANCEMENT	$ -	$ 2,657,242	$ -	$ 86,400	$ -	$ 10,000	$ -		$ 9,868,926	$ -	$ 492,900	$ -	$ -	$ -	$ -	$ 13,115,468
		$ -	$ -	$ 1,669,705	$ 270,000	$ -	$ 476,650	$ -		$ -	$ 427,000	$ 1,347,351	$ -	$ -	$ -	$ 10,600	$ 4,201,306
	S50 - APPL. OPERATION - MAINFRAM	$ -	$ -	$ 5,477,912	$ -	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,477,912
	S51 - APPL. OPERATION - HP/UNIX	$ -	$ -	$ 5,806,285	$ -	$ -	$ 39,460	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,845,745
	S54 - PERSONAL COMPUTERS	$ -	$ -	$ 1,552,305	$ -	$ 262,760	$ 587,862	$ 769,893		$ 337,280	$ 1,586,121	$ 6,856,370	$ -	$ 497,500	$ -	$ -	$ 12,450,091
		$ -	$ -	$ -	$ -	$ -	$ 181,820	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 181,820
	S55 - PERSONAL COMPUTER NETWORK	$ -	$ -	$ 941,543	$ -	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 941,543
Strategic Planning	C64 - STRATEGIC PLANNING	$ 833	$ -	$ 549,524	$ 957,361	$ 20,003	$ 21,392	$ 54,452		$ -	$ 492,571	$ 569,805	$ 20,003	$ 47,507	$ 40,839	$ 3,889	$ 2,778,179
	C67 - MARKET RESEARCH-GLOBAL	$ 80	$ -	$ 52,462	$ 91,397	$ 1,910	$ 2,042	$ 5,198		$ -	$ 47,024	$ 54,398	$ 1,910	$ 4,535	$ 3,899	$ 371	$ 265,226
	C68 - INVESTOR REL. / FUNDS MGMT	$ 252	$ -	$ 166,134	$ 289,433	$ 6,047	$ 6,467	$ 16,462		$ -	$ 148,916	$ 172,266	$ 6,047	$ 14,362	$ 12,347	$ 1,176	$ 839,909
	C79 - MARKET RESEARCH-UTILITY	$ -	$ -	$ 611,435	$ 1,071,458	$ 22,871	$ -	$ -		$ -	$ 550,349	$ 638,937	$ -	$ -	$ -	$ -	$ 2,895,050
Tax	C50 - TAX ADMINISTRATION	$ 1,076	$ -	$ 709,295	$ 1,235,708	$ 25,819	$ 27,612	$ 70,284		$ -	$ 635,784	$ 735,472	$ 25,819	$ 61,319	$ 52,713	$ 5,020	$ 3,585,921
	C77 - CP&L TAX SERVICES	$ -	$ -	$ 55,718	$ 97,835	$ 2,133	$ 2,291	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 157,977
	C78 - FPC TAX SERVICES	$ -	$ -	$ -	$ -	$ -	$ -	$ -		$ -	$ 891,165	$ 534,687	$ -	$ -	$ -	$ -	$ 1,425,852
	S59 - PAYROLL	$ -	$ -	$ 154,322	$ 243,502	$ 4,758	$ 16,737	$ 31,012		$ -	$ 106,819	$ 195,425	$ -	$ -	$ -	$ 328	$ 752,903
Treasury	C51 - TREASURY MANAGEMENT	$ 447	$ -	$ 294,797	$ 513,584	$ 10,731	$ 11,476	$ 29,211		$ -	$ 264,244	$ 305,676	$ 10,731	$ 25,485	$ 21,909	$ 2,087	$ 1,490,378
	C54 - CASH MANAGEMENT	$ 153	$ -	$ 100,729	$ 175,424	$ 3,661	$ 3,915	$ 10,017		$ -	$ 90,305	$ 104,441	$ 3,661	$ 8,695	$ 7,475	$ -	$ 508,476
	C55 - INSURANCE RISK MANAGEMENT	$ 172	$ -	$ 113,296	$ 197,380	$ 4,124	$ 4,410	$ 11,226		$ -	$ 101,554	$ 117,477	$ 4,124	$ 9,795	$ 8,420	$ 802	$ 572,780
	C56 - FINANCIAL RISK MANAGEMENT	$ 98	$ -	$ 64,532	$ 112,426	$ 2,349	$ 2,512	$ 6,395		$ -	$ 57,844	$ 66,914	$ 2,349	$ 5,579	$ 4,796	$ 457	$ 326,251
	C57 - FINANCIAL FORECASTING	$ 221	$ -	$ 145,384	$ 253,282	$ 5,292	$ 5,660	$ 14,406		$ -	$ 130,316	$ 150,749	$ 5,292	$ 12,569	$ 10,805	$ 1,029	$ 735,005
	C58 - LOAD FORECASTING	$ -	$ -	$ 70,081	$ 123,365	$ -	$ 2,915	$ 7,012		$ -	$ -	$ -	$ -	$ -	$ -	$ 469	$ 203,842
	C59 - PROPERTY INSURANCE	$ -	$ -	$ 1,989,000	$ 2,961,400	$ 2,550	$ 4,250	$ 178,500		$ -	$ 1,589,500	$ 1,635,400	$ 850	$ 114,750	$ -	$ 23,800	$ 8,500,000
	C60 - LIABILITY & WC INSURANCE	$ -	$ -	$ 323,622	$ 681,876	$ 28,080	$ 29,835	$ 36,621		$ -	$ -	$ -	$ 28,665	$ 41,301	$ -	$ -	$ 1,170,000
	C61 - OTHER INSURANCE	$ -	$ -	$ 203,572	$ 355,615	$ 7,521	$ 8,029	$ 20,225		$ -	$ 182,838	$ 211,905	$ 7,521	$ 17,684	$ -	$ 1,423	$ 1,016,333
	C62 - NUCLEAR PREMIUMS & CREDITS	$ -	$ (12,482,735)	$ -	$ -	$ -	$ -	$ -		$ (2,740,113)	$ -	$ -	$ -	$ -	$ -	$ -	$ (15,222,848)
	C76 - FINANCIAL ADMINISTRATION F	$ -	$ -	$ 536,500	$ 942,032	$ 20,535	$ 22,056	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,521,123
	S36 - BUSINESS CASE ANALYSIS	$ -	$ -	$ 144,610	$ 252,961	$ 5,492	$ 5,773	$ 14,362		$ -	$ 130,036	$ 150,805	$ -	$ -	$ -	$ -	$ 704,039
Corporate Communications	C22 - CORPORATE COMMUNICATIONS	$ 4,309	$ -	$ 2,841,361	$ 4,950,116	$ 103,427	$ 110,609	$ 281,550		$ -	$ 2,546,882	$ 2,946,224	$ 103,427	$ 245,638	$ 211,163	$ 20,111	$ 14,364,817
	C23 - DONATIONS	$ 1,043	$ -	$ 692,428	$ 1,211,593	$ 25,854	$ 27,731	$ 68,805		$ -	$ -	$ -	$ -	$ -	$ 52,751	$ 4,796	$ 2,085,001
	C24 - CP&L IMAGE ADVERTISING	$ -	$ -	$ 1,176,150	$ 2,065,183	$ 45,019	$ 48,353	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,334,705
	C26 - NCNG IMAGE ADVERTISING	$ -	$ -	$ -	$ -	$ -	$ -	$ 37,000		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 37,000
	S17 - INTERNAL COMMUNICATIONS	$ -	$ -	$ 516,230	$ 815,627	$ 18,949	$ 34,109	$ 92,580		$ -	$ 411,468	$ 725,754	$ 31,131	$ 54,682	$ 5,414	$ 1,083	$ 2,707,027
	S18 - CUSTOMER COMMUNICATIONS	$ -	$ -	$ 369,200	$ -	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 369,200
Human Resources	C27 - HUMAN RESOURCES MGMT.	$ -	$ -	$ 1,275,092	$ 2,014,051	$ 46,508	$ 83,973	$ 228,664		$ -	$ 1,016,068	$ 1,792,492	$ -	$ -	$ -	$ 2,584	$ 6,459,432
	C28 - LABOR RELATIONS	$ -	$ -	$ 27,469	$ 43,395	$ 1,006	$ 1,811	$ 4,930		$ -	$ 21,892	$ 38,623	$ 4,653	$ 2,904	$ -	$ 58	$ 143,741
	C30 - COMPENSATION	$ -	$ -	$ 456,755	$ 721,626	$ 16,742	$ 30,084	$ 81,881		$ -	$ -	$ -	$ --	$ -	$ -	$ 916	$ 1,308,004
	C31 - EEO/AA/DIVERSITY	$ -	$ -	$ 40,760	$ 64,418	$ 1,497	$ 2,678	$ 7,317		$ -	$ 32,473	$ 57,312	$ -	$ 4,323	$ -	$ 84	$ 210,862
	S19 - HRIS	$ -	$ -	$ 158,742	$ 250,883	$ 5,831	$ 10,430	$ 28,496		$ -	$ 126,468	$ 223,208	$ -	$ 16,835	$ -	$ 328	$ 821,221

Progress Energy Service Company
2001 Service Company Budget By Product/Service - Consolidated Charges

(Budget as of December 4, 2000)

			CP&L Entities							Florida Progress Entities							
Service Company Group/Department	Product	Holding Company	CP&L (Corp)	Energy Distribution	Energy Supply	Retail	Energy Ventures	NCNG	Eastern NCNG	FPC (Corp)	En Supply	Elect Dist	Electric Fuels	Progress Telecom	SRS	Monroe	Total
	S20 - POLICY/PAY/BENEFIT ADMIN.	$ -	$ -	$ 138,611	$ 218,941	$ 5,056	$ 9,128	$ 24,857		$ -	$ 110,454	$ 194,856	$ -	$ -	$ -	$ 281	$ 702,184
	S21 - ORGANIZATIONAL EFFECTIVENESS	$ -	$ -	$ 192,092	$ 303,416	$ 7,006	$ 12,650	$ 34,448		$ -	$ 153,071	$ 270,039	$ -	$ -	$ -	$ 389	$ 973,111
	S22 - STAFFING / RECRUITING	$ -	$ -	$ 247,108	$ 390,405	$ 9,058	$ 16,276	$ 44,298		$ -	$ -	$ -	$ -	$ -	$ -	$ 495	$ 707,640
	S23 - TRAIN & DVLPMT-EXEC./PERS	$ -	$ -	$ 128,778	$ 203,410	$ 4,697	$ 8,481	$ 23,094		$ -	$ 102,618	$ 181,033	$ -	$ -	$ -	$ 261	$ 652,372
	S24 - HR - NGG	$ -	$ -	$ -	$ 499,445	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 499,445
	S25 - HR - POG	$ -	$ -	$ -	$ 328,907	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 328,907
	S26 - HR - ED	$ -	$ -	$ 389,526	$ -	$ -	$ -	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 389,526
	S28 - HR - NCNG	$ -	$ -	$ -	$ -	$ -	$ -	$ 169,948		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 169,948
Other	000 - UNSPECIFIED	$ -	$ 55,944,995	$ -	$ -	$ -	$ -	$ 3,596,796		$ 4,384,057	$ -	$ -	$ -	$ -	$ -	$ -	$ 63,925,848
(Benefits/Burdens)	C01 - EXECUTIVE MANAGEMENT	$ 1,074,111	$ -	$ -	$ -	$ -	$ -	$ 363,714		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,437,825
	C10 - CORP HQ LEASEHOLD IMPROVE.	$ -	$ -	$ 1,400,625	$ 1,508,110	$ 29,880	$ 654,870	$ 556,515		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,150,000
	S47 - SERVICE CO BURDEN ALLOC OF	$ 394,006	$ 10,495	$ 3,862,691	$ 6,479,627	$ 244,580	$ 201,377	$ 421,498		$ -	$ 2,162,178	$ 2,938,702	$ 55,554	$ 138,338	$ 116,282	$ -	$ 17,025,328
	Total Service Company	$ 11,019,933	$ 47,015,497	$ 99,862,216	$ 89,670,201	$ 4,328,240	$ 7,272,780	$ 22,976,811	$ 400,000	$ 17,803,039	$ 32,483,934	$ 76,772,493	$ 454,771	$ 2,071,070	$ 1,289,696	$ 273,132	$ 413,693,813

Progress Energy Service Company
Product/Service Cost Distribution Methodology

Service Company Group/Department		Product	Description	2001 Budget By Method: Direct Project Billing	Direct Assignment	Indirect/ Allocated
Executive		C01 - Executive Management	Provides management oversight across the entire Holding and Service Company	X		X
		C82 - EEI Dues	Edison Electric Institute professional dues			X
President		C83 - Service Company President	Provides management oversight across the entire Holding and Service Company.			X
Corp Relations & Administrative Services		C06 - CR & AS Group Management	Provides management oversight across the entire Administrative Services and Corporate Relations Group.	X		X
		C63 - Admin Service Group Management	Provides management oversight across the entire Administrative Services Group.	X		X
	Audit	C07 - Internal Audit	Provide an independent and objective appraisal of the adequacy of business controls and effectiveness and efficiency of company operations. Includes financial, information technology, operations, environmental, and health and safety audits. Also includes administration of the Corporate Ethics Program and business controls education.	X		X
	Corporate Services	C08 - Corporate Services Management	Provides management oversight across the entire Corporate Services function. Also includes facilities management governance services and other department activities not readily assignable to a specific product/service.	X		X
		C09 - Employee ID Cards-Corp	Produce and maintain employee ID cards, including the database.			X
		C11 - Real Estate	Buy, sell, lease, and develop real estate. Provide lake, timber, and land management. Coordinate and support right-of-way activities.			X
		C12 - Nuclear Access Authorization/ Physical Security	Access Authorization, Nuclear Background Investigations and Fitness for Duty Programs. Nuclear security programs support through program implementation assistance, management of nuclear safeguards information, commonality, industry best practices, assessment.			X
		C13 - Physical Security Invest/EAP	Executive and headquarters protection services, professional investigative and physical security services, proprietary information protection, employment, background investigations and workplace violence prevention programs. Managed EAP designed to effectively support employees and their families. Subsidiary Drug and Alcohol testing Program management and workplace violence intervention services.			X
		C15 - Corporate Air (fixed)	Maintain and pilot corporate aircraft. Includes lease of aircraft, hangar fees, pilots' salaries and other fixed expenses.			X
		C16 - Records and Procedures	Provide governance services, common programs/standards, contract management for records and procedure/controlled document needs (outside nuclear QA)			X
		C74 - Property Management (Corp HDQ)	Full service management of facilities (including rent, utilities, security, card access, janitorial, renovations, operations/repairs/maintenance, landscaping, food service, parking, pest control, retail tenants, vending, furniture, plants, artwork, etc.) for corporate headquarters buildings.			X
		C80 - Corporate Leases	Manage facilities for future use.			X

Progress Energy Service Company
Product/Service Cost Distribution Methodology

Service Company Group/Department		Product	Description	2001 Budget By Method: Direct Project Billing	Direct Assignment	Indirect/ Allocated
		S01 - Fleet Management	Provides management oversight of fleet purchases, operations and maintenance services and DOT and DOE regulatory compliance activities.			X
		S03 - Property Management (System)	Same as above for administration, crew, shop, and other buildings throughout the CP&L system (Power Operations, Nuclear Generation, EDG, Shared Services, and other Groups, including subsidiaries).	X		X
		S04 - Facilitites Project Management	Facility planning and programming from conceptual need identification to design construction and occupancy. Includes budget and schedule preparation for each facility and an annual integrated 5-year facilities plan for the Company. Facility engineering,	X		X
		S06 - Contracts/Leasing	Identifies sources, prepares contracts for services and leasing and resource sharing..			X
		S11 - Oil-Filled Equipment Repairs	Repair transformers and other oil-filled equipment and test rubber goods (lineman's safety equipment). Also includes PCB and oil handling.			X
		S13 - Research and Technical Data	Conduct negotiation/management and application support for industry standards, technical documents, and common business research tools; direct research support for critical business decisions.			X
		S14 - Mail Services	Manage labor, supplies, equipment, postage, and contracts in support of corporate mail operations (excluding printing and mailing bills).			X
		S15 - Copy Center Services	Manage program and contracts to provide copy equipment, maintenance, supplies, and paper in user locations and for bulk and special copy services.	X		
	Economic Dev	C43 - Economic Development	Provide services associated with promoting economic development within our service territory. This includes attendance at trade shows and events to represent the company; recruitment of businesses; assistance with strategic planning for communities to aid in attracting businesses; facility location services; assistance to local, state, and regional allies with attracting businesses, etc.			X
	Environmental, Health & Safety	C33 - Corporate EHS Management	Provides management oversight across the entire Corporate Environmental, Health and Safety function.	X		X
		C34 - Regulatory Affairs/Technical Support	Develops programs and procedures; tracks regulatory issues; reviews events; investigates accidents and operating experiences; keeps records on compliance; tracks contractor safety for shared services/retail sales; provides health and safety support; provides industrial hygiene support.			X
		C36 - Energy Supply Safety Services	Implements health and safety policies and procedures; performs hazard analyses and compliance assessments; performs health and safety training; performs accident investigation and analyses.			X
		C37 - Energy Delivery Safety Services	Implements health and safety policies and procedures; performs hazard analyses and compliance assessments; conducts health and safety training; performs accident investigation and analysis.			X

Progress Energy Service Company
Product/Service Cost Distribution Methodology

Service Company Group/Department		Product	Description	2001 Budget By Method: Direct Project Billing	Direct Assignment	Indirect/ Allocated
		C38 - Retail Gas/Pipeline Safety	Implements health and safety policies and procedures; performs hazard analysis and compliance assessments; performs health and safety training; conducts accident investigation and analysis; performs DOT pipeline safety (RSPA) drug/alcohol testing and training.			X
		C39 - Occ. Health Services	Implements OH policies and procedures; conducts medical evaluations (nuclear, fossil, pipeline safety); performs medical surveillance (lead, asbestos, hearing conservation); conducts free climbing medical fitness tests; evaluates ergonomics of work activities.			X
		C40 - DOT Motor Carrier Safety	Conducts driver (CDL) qualification; performs drug/alcohol testing and training; conducts medical evaluations.			X
		C41 - Workers' Compensation	Performs claims management, case management, TPA coordination and workers compensation oversight. Includes the costs to maintain the reserve for workers' compensation (self-insurance).	X		X
		C42 - Environmental Services	Provides environmental services.			X
	Legal	C17 - Legal Services	All activities associated with providing legal services and support in all matters related to company operations and relations for consolidated or Services Company. Also provides management oversight across the entire function.	X	X	X
		C18 - Corporate Secretary	Coordination of Board of Directors ("BOD") activities and handling shareholder relations, including related corporate governance activities and shareholder services.		X	
		C19 - Claims	Provides investigation and settlement support and payment of general liability and motor vehicle accidents against the Company. Coordinates the collection of monies owed to Company for damage to Company facilities and equipment as a result of third party negligence.	X		X
	Regulatory Affairs	C20 - Regulatory Affairs	Manage retail regulatory issues and activities with the utilities commissions in North and South Carolina, and provide support for federal and state legislative affairs regarding retail matters. Obtain state utilities commissions' approvals of all Company initiatives.			X
	Public Affairs	C21 - Public Affairs	Influencing legislation and shaping public policy & opinion on major corporate issues; ally development and training for NC & SC allies; support for "Citizens for a Brighter Carolina" group; monitoring & tracking legislation, building goodwill & relationships at the Fed., NC & SC state levels.		X	
Financial Services Group		C44 - Fin Svcs Group Exec Management	Provides management oversight across the entire Financial Services Group.	X		X
		C75 - Finance Executive Management	Provides management oversight across the entire Finance Group.	X		X
	Accounting	C45 - Accounting Management	Provides management oversight across the entire Accounting function.	X		X
		C46 - Management Reporting	Develops and distributes cost reports, and develops and coordinates materials presented to the Board of Directors and its committees.	X		X
		C47 - Financial Reporting	Develops internal and external financial reports and profit/loss reports.	X		X

Progress Energy Service Company
Product/Service Cost Distribution Methodology

Service Company Group/Department	Product	Description	2001 Budget By Method: Direct Project Billing	Direct Assignment	Indirect/ Allocated
	C49 - Benchmarking	Develops benchmarking processes to support cost vs market and quality of service comparisons.			X
	C52 - Rates	Develops and implements jurisdictional rates and competitive pricing options; provides embedded and marginal cost-of-service expertise and analyses in support of rate development and strategic business unit needs; provides expertise and guidance in the application of state and FERC rate schedules, riders and service regulations.			X
	S30 - General Ledger Accounting	Maintains general ledger, account keys and journal entries; manages the monthly and annual closing process; performs bank reconciliations.			X
	S31 - Property Accounting	Maintains core fixed assets and materials records, including the entry of work orders in field organizations.			X
	S32 - Disbursements	Enters accounts payable invoices and other invoice/payments.			X
	S33 - Revenue Accounting	Maintains certain customer accounting records; reconciles customer system to general ledger; maintains non-electric service accounts receivable system; performs revenue analysis .		X	X
	S34 - Regulatory Accounting	Develops regulatory financial reports and consults on proper regulatory treatment of various accounting transactions; maintains records and reports on fuel-related transactions.	X	X	X
	S35 - Diversified Investments	Handles all intercompany billing processes for subsidiaries of CP&L Energy. Also, maintains accounting records for certain subsidiaries.	X		X
Information Technology	C69 - IT Infrastructure Management	Provide management oversight across the entire function.			X
	C70 - Applications Maintenance	Maintain and repair business software applications.	X		
	C71 - Infrastructure & Maintenance	Provides and maintains the local area data networks, wide area data networks, fiber usage, video conferencing, voice mail, as well as network support.			X
	S49 - Applications Develop & Enhance	Planning, design, implementation, and enhancement of business software applications.	X		
	S50 - Applications Operations - Mainframe	Provide computing, data storage, and printing for business software applications running on mainframe computers.	X		
	S51 - Applications Operations - HP/UNIX	Provide computing, data storage, and printing for business software applications running on HP/UNIX servers.	X		
	S54 - Personal Computers	Provide personal computer hardware, software, remote access, and associated support personnel.	X		
	S55 - Personal Computer Network	Provide e-mail, shared calendars, shared storage, Inter/Intranet access, and access to application servers.	X		
Strategic Planning	C64 - Strategic Planning	Maintains responsibility for corporate strategic planning (does not develop long-term plans for line or individual corporate organizations).			X

Progress Energy Service Company
Product/Service Cost Distribution Methodology

Service Company Group/Department		Product	Description	2001 Budget By Method Direct Project Billing	Direct Assignment	Indirect/ Allocated
		C67 - Market Research - Global	Provides market research services to the consolidated entity.			X
		C68 - Investor Relations/Funds Mgmt	Manages relations with the financial community and the performance of external trust funds.			X
		C79 - Market Research - Utility	Provides market research services to the utility.			X
	Tax	C50 - Tax Administration	Conducts tax planning and prepares returns, including taxes other than income.	X	X	X
		C77 - CP&L Tax Services	Provides CP&L Tax Services.			X
		C78 - FPC Tax Services	Provides FPC Tax Services.			X
		S59 - Payroll	Conducts time entry; maintains payroll system; runs payroll; produces payroll-related reports and processes employee expense reports.			X
	Treasury	C51 - Treasury Management	Provides management oversight across the entire Treasury function.	X		X
		C54 - Cash Management	Manages the efficient movement of company funds through the banking system and secures short-term debt financing and/or investments.			X
		C55 - Insurance Risk Management	Manages the corporate insurance program.			X
		C56 - Financial Risk Management	Measures, independently, and reports corporate risk exposures; provides risk management training, tools, controls and strategies.			X
		C57 - Financial Forecasting	Coordinates and develops plans and budgets for corporate and line organizations. Prepares and presents results of financial forecasts and provides financial and planning support for the regulatory and strategic planning process.			X
		C58 - Load Forecasting	Prepares and presents economic, load and energy forecasts.			X
		C59 - Property Insurance	Property insurance premiums..			X
		C60 - Liability & Workers Comp Insurance	Liability and workers' compensation insurance premiums.			X
		C61 - Other Insurance	Crime, directors & officers, aircraft, fiduciary and special insurance premiums.			X
		C62 - Nuclear Premiums & Credits	Nuclear property and liability insurance credit for good experience.			X
		C76 - Financial Administration Fees	Includes financial administration fees, such as bank fees.		X	X
		S36 - Business Case Analysis	Provides analysis support for business case development for various initiatives.	X		X
Corporate Communications		C22 - Corporate Communications	Includes management oversight across the entire Corporate Communications function. Develops and distributes key company messages to external media as primary corporate spokespersons; manages company's strategic philanthropy; manages the company's brand position and ensures consistency in brand message for both internal and external audiences; directs the corporate image through advertising.coordinates support activities for special corporate events; and provides communication planning and counseling.	X	X	X
		C23 - Donations	Corporate donations.			X
		C24 - CP&L Image Advertising	Manages the company's brand position and ensures consistency in brand message for both internal and external audiences. Directs the corporate image through advertising.			X

Progress Energy Service Company
Product/Service Cost Distribution Methodology

Service Company Group/Department	Product	Description	2001 Budget By Method: Direct Project Billing	Direct Assignment	Indirect/ Allocated
	C26 - NCNG Image Advertising	Manages the company's brand position and ensures consistency in brand message for both internal and external audiences. Directs the corporate image through advertising.			X
	S17 - Internal Communications	Manages systems and creates tactical tools to keep employees informed and engaged about strategic business developments and their role in ensuring company success; tools include newsletters, e-mail (infobulletins), Intranet and Internet employee briefings.		X	X
	S18 - Customer Communications	Includes communications to Energy Delivery customers.		X	
Human Resources	C27 - Human Resources Management	Provides management oversight across the Human Resources entire function.	X		X
	C28 - Labor Relations	Provides corporate support for labor-related issues (union & non-union).			X
	C30 - Compensation	Administers base compensation, MICP, LTIP, deferred compensation, ECIP and other compensation programs.	X		X
	C31 - EEO/AA/Diversity	Provides consultation and support on affirmative action, equal employment opportunity and diversity.			X
	S19 - HRIS	Manages overall HR information; administers the PeopleSoft HR system; provides benefits administration.			X
	S20 - Policy/Pay/Benefit Admin.	Provides the employee information line, benefits administration, compensation administration, and policies/practices administration of corporate relocation services and pre-retirement seminars.			X
	S21 - Organizational Effectiveness	Designs and implements HR process improvements.			X
	S22 - Staffing/Recruiting	Recruits, screens, tests, interviews applicants, consults with managers on staffing plans and issues.			X
	S23 - Training & Development	Provides executive and personal developmental training and employee development programs. Course attendance charged by and to customer.	X		X
	S24 - HR - Nuclear Generation Group	Includes cost of the HR service manager and representatives who provide HR management. Consultation & support to managers & employees in the Nuclear Generation Group.		X	
	S25 - HR - Power Ops Group	Includes cost of the HR service manager and representatives who provide HR management. Consultation & support to managers & employees in the Power Operations Group.		X	
	S26 - HR - Energy Delivery	Includes cost of the HR service manager and representatives who provide HR management. Consultation & support to managers & employees in the Energy Delivery Group.		X	
	S28 - HR - NCNG	Includes cost of the HR service manager and representatives who provide HR management. Consultation & support to managers & employees in the Gas and Energy Services Group.		X	
Other	C01 - Executive Management	Provides management oversight across the entire Holding and Service Company	X		X

Progress Energy Service Company
Product/Service Cost Distribution Methodology

Service Company Group/Department	Product	Description	2001 Budget By Method: Direct Project Billing	Direct Assignment	Indirect/ Allocated
(Benefits/Burdens)	C10 - Corp HQ Leasehold Improvements	Amortizaiton of leasehold improvement projects for corporate headquarters leased facilities.			X
	S47 - Service Co Burden Allocation	Exceptional hours, payroll tax, benefit and stores burdens.			X

Progress Energy Service Company
Indirect Product/Service Cost Distribution Methodology

Service Company Group/Department		Product	Description	Allocation Factor	Holding Co	CP&L (Corp)	CP&L ED	CP&L ES	CP&L Retail	En Ventures	NCNG	FPC (Corp)	FPC ES	FPC ED	Elect Fuels	Prog Telecom	SRS	Monroe	Total
					Where Allocated, Affiliates Receiving Allocation														
Executive		C01 - Executive Management	Provides management oversight across the entire Holding and Service Company	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
		C82 - EEI Dues	Edison Electric Institute professional dues	Evenly Distributed			25.00%	25.00%					25.00%	25.00%					100.00%
President		C83 - Service Company President	Provides management oversight across the entire Holding and Service Company	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
Corp Relations & Administrative Services		C06 - CR & AS Group Management	Provides management oversight across the entire Administrative Services and Corporate Relations Group	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
		C63 - Admin Service Group Management	Provides management oversight across the entire Administrative Services Group.	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	Audit	C07 - Internal Audit	Provide an independent and objective appraisal of the adequacy of business controls and effectiveness and efficiency of company operations. Includes financial, information technology, operations, environmental, and health and safety audits. Also includes administration of the Corporate Ethics Program and business controls education.	MM18	0.05%		33.21%	58.10%	1.24%	1.33%	3.30%						2.53%	0.23%	100.00%
	Corporate Services	C08 - Corporate Services Management	Provides management oversight across the entire Corporate Services function. Also includes facilities management governance services and other department activities not readily assignable to a specific product/service	MM5			20.54%	35.93%	0.77%	0.82%	2.04%		18.47%	21.42%					100.00%
		C09 - Employee ID Cards-Corp	Produce and maintain employee ID cards, including the database.	Headcount			20.09%	31.73%	0.62%	2.17%	4.03%		13.90%	25.45%		2.00%			100.00%
		C11 - Real Estate	Buy, sell, lease, and develop real estate. Provide lake, timber, and land management. Coordinate and support right-of-way activities.	MM5			20.54%	35.93%	0.77%	0.82%	2.04%		18.47%	21.42%					100.00%
		C12 - Nuclear Access Authorization /Physical Security	Access Authorization, Nuclear Background Investigations and Fitness for Duty Programs. Nuclear security programs support through program implementation assistance, management of nuclear safeguards information, commonality, industry best practices, assessment	Nuclear Plants				80.00%					20.00%						100.00%
		C13 - Physical Security Invest/EAP	Executive and headquarters protection services, professional investigative and physical security services, proprietary information protection, employment, background investigations and workplace violence prevention programs. Managed EAP designed to effectively support employees and their families. Subsidiary Drug and Alcohol testing Program management and workplace violence intervention services	Headcount			19.46%	30.73%	0.60%	2.11%	3.91%		13.47%	24.65%		1.93%	3.11%	0.04%	100.00%
		C15 - Corporate Air (fixed)	Maintain and pilot corporate aircraft. Includes lease of aircraft, hangar fees, pilots' salaries and other fixed expenses	Based on prior year usage as % of total			34.53%	55.78%	3.84%	3.82%							2.02%		100.00%
		C16 - Records and Procedures	Provide governance services, common programs/standards, contract management for records and procedure/controlled document needs (outside nuclear QA)	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%		14.18%	25.96%				0.04%	100.00%
		C74 - Property Management (Corp HDQ)	Full service management of facilities (including rent, utilities, security, card access, janitorial, renovations, operations/repairs/maintenance, landscaping, food service, parking, pest control, retail tenants, vending, furniture, plants, artwork, etc.) for corporate headquarters buildings.	CPB & OH Sq Ft occupied			11.18%	9.76%	0.30%	8.07%	4.20%					1.00%	Balance goes to Svc Co		34.51%
		C80 - Corporate Leases	Manage facilities for future use	100% to CP&L (MM1 to BU's)			35.27%	61.93%	1.35%	1.45%									100.00%
		S01 - Fleet Management	Provides management oversight of fleet purchases, operations and maintenance services and DOT and DOE regulatory compliance activities.	No. of vehicles managed									7.00%	38.00%	This is Fla portion (they are not on VMS; rest goes to VMS				45.00%
		S03 - Property Management (System)	Same as above for administration, crew, shop, and other buildings throughout the CP&L system (Power Operations, Nuclear Generation, EDG, Shared Services, and other Groups, including subsidiaries).	% of FTE's assigned			88.00%				12.00%								100.00%
		S04 - Facilities Project Management	Facility planning and programming from conceptual need identification to design construction and occupancy. Includes budget and schedule preparation for each facility and an annual integrated 5-year facilities plan for the Company. Facility engineering,	Charged to customer. Residual is allocated based on % of FTE's assigned.			28.71%	13.20%			18.81%		4.62%	34.65%					100.00%
		S06 - Contracts/Leasing	Identifies sources, prepares contracts for services and leasing and resource sharing..	% of FTEs assigned			11.43%	48.57%		22.86%			14.29%	2.86%					100.00%
		S11 - Oil-Filled Equipment Repairs	Repair transformers and other oil-filled equipment and test rubber goods (lineman's safety equipment). Also includes PCB and oil handling.	100% CP&L-ED			100.00%												100.00%
		S13 - Research and Technical Data	Conduct negotiation/management and application support for industry standards, technical documents, and common business research tools; direct research support for critical business decisions	% based on prior year use			9.71%	45.86%	0.90%	3.14%	8.00%		20.10%	12.29%					100.00%
		S14 - Mail Services	Manage labor, supplies, equipment, postage, and contracts in support of corporate mail operations (excluding printing and mailing bills).	Headcount			20.37%	32.16%	0.63%	2.20%	4.09%		14.09%	25.80%	0.66%				100.00%
		S15 - Copy Center Services	Manage program and contracts to provide copy equipment, maintenance, supplies, and paper in user locations and for bulk and special copy services.	Headcount ratio			34.26%	54.09%	1.06%	3.71%	6.88%								100.00%
	Economic Dev	C43 - Economic Development	Provide services associated with promoting economic development within our service territory. This includes attendance at trade shows and events to represent the company; recruitment of businesses; assistance with strategic planning for communities to aid in attracting businesses; facility location services; assistance to local, state, and regional allies with attracting businesses, etc.	MM2	0.05%		34.05%	59.80%	1.30%	1.40%	3.40%								100.00%
	Environmental, Health & Safety	C33 - Corporate EHS Management	Provides management oversight across the entire Corporate Environmental, Health and Safety function	MM21			20.19%	35.30%	0.75%	0.81%	2.01%		18.15%	21.04%		1.76%			100.00%

Progress Energy Service Company
Indirect Product/Service Cost Distribution Methodology

Service Company Group/Department		Product	Description	Allocation Factor	Holding Co	CP&L (Corp)	CP&L ED	CP&L ES	CP&L Retail	En Ventures	NCNG	FPC (Corp)	FPC ES	FPC ED	Elect Fuels	Prog Telecom	SRS	Monroe	Total
					Where Allocated, Affiliates Receiving Allocation														
		C34 - Regulatory Affairs/Technical Support	Develops programs and procedures; tracks regulatory issues; reviews events; investigates accidents and operating experiences; keeps records on compliance; tracks contractor safety for shared services/retail sales; provides health and safety support; provides industrial hygiene support.	Headcount			20 50%	32.36%	0.63%	2.22%	4.12%		14.18%	25.96%				0 04%	100.00%
		C36 - Energy Supply Safety Services	Implements health and safety policies and procedures; performs hazard analyses and compliance assessments; performs health and safety training, performs accident investigation and analyses	100% ES				100.00%											100.00%
		C37 - Energy Delivery Safety Services	Implements health and safety policies and procedures; performs hazard analyses and compliance assessments; conducts health and safety training; performs accident investigation and analysis	100% ED			100.00%												100.00%
		C38 - Retail Gas/Pipeline Safety	Implements health and safety policies and procedures; performs hazard analysis and compliance assessments; performs health and safety training; conducts accident investigation and analysis; performs DOT pipeline safety (RSPA) drug/alcohol testing and training.	100% NCNG							100.00%								100.00%
		C39 - Occ. Health Services	Implements OH policies and procedures; conducts medical evaluations (nuclear, fossil, pipeline safety); performs medical surveillance (lead, asbestos, hearing conservation); conducts tree climbing medical fitness tests; evaluates ergonomics of work activities.	100% ES				100.00%											100.00%
		C40 - DOT Motor Carrier Safety	Conducts driver (CDL) qualification; performs drug/alcohol testing and training; conducts medical evaluations	100% ED			100.00%												100.00%
		C41 - Workers' Compensation	Performs claims management, case management, TPA coordination and workers compensation oversight. Includes the costs to maintain the reserve for workers' compensation (self-insurance).	MM12			20.06%	35.03%	0.74%	0.79%	1.99%		18.02%	20.87%	0.74%	1.74%			100.00%
		C42 - Environmental Services	Provides environmental services	MM10	0.03%		20.23%	35.32%	0.74%	0.80%	2.01%		18.16%	21.04%			1.52%	0.14%	100.00%
	Legal	C17 - Legal Services	All activities associated with providing legal services and support in all matters related to company operations and relations for consolidated or Services Company Also provides management oversight across the entire function.	MM18	0.05%		33.21%	58.10%	1.24%	1.33%	3.30%						2.53%	0.23%	100 00%
		C18 - Corporate Secretary	Coordination of Board of Directors ("BOD") activities and handling shareholder relations, including related corporate governance activities and shareholder services.	100% to HC	100.00%														100.00%
		C19 - Claims	Provides investigation and settlement support and payment of general liability and motor vehicle accidents against the Company. Coordinates the collection of monies owed to Company for damage to Company facilities and equipment as a result of third party negligence	Historical Claims Ratio			95.00%	2.00%			3.00%								100.00%
	Regulatory Affairs	C20 - Regulatory Affairs	Manage retail regulatory issues and activities with the utilities commissions in North and South Carolina, and provide support for federal and state legislative affairs regarding retail matters. Obtain state utilities commissions' approvals of all Company initiatives.	MM4			34 07%	59.83%	1.30%	1 40%	3.40%								100.00%
	Public Affairs	C21 - Public Affairs	Influencing legislation and shaping public policy & opinion on major corporate issues; ally development and training for NC & SC allies; support for "Citizens for a Brighter Carolina" group; monitoring & tracking legislation, building goodwill & relationships at the Fed., NC & SC state levels.	100% to HC (below the line)	100.00%														100.00%
Financial Services Group		C44 - Fin Svcs Group Exec Management	Provides management oversight across the entire Financial Services Group.	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
		C75 - Finance Executive Management	Provides management oversight across the entire Finance Group	MM0	0.03%		19.78%	34 46%	0.72%	0 77%	1.96%		17.73%	20.51%	0 72%	1.71%	1.47%	0.14%	100.00%
	Accounting	C45 - Accounting Management	Provides management oversight across the entire Accounting function.	MM5			20.54%	35.93%	0.77%	0.82%	2.04%		18.47%	21.42%					100.00%
		C46 - Management Reporting	Develops and distributes cost reports, and develops and coordinates materials presented to the Board of Directors and its committees.	MM5			20.54%	35.93%	0.77%	0.82%	2.04%		18.47%	21.42%					100.00%
		C47 - Financial Reporting	Develops internal and external financial reports and profit/loss reports.	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
		C49 - Benchmarking	Develops benchmarking processes to support cost vs market and quality of service comparisons.	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
		C52 - Rates	Develops and implements jurisdictional rates and competitive pricing options; provides embedded and marginal cost-of-service expertise and analyses in support of rate development and strategic business unit needs; provides expertise and guidance in the application of state and FERC rate schedules, riders and service regulations.	MM4			34.07%	59.83%	1.30%	1.40%	3.40%								100.00%
		S30 - General Ledger Accounting	Maintains general ledger, account keys and journal entries; manages the monthly and annual closing process; performs bank reconciliations.	MM14	0.05%		33.96%	59.67%	1.30%	1.40%	3.39%							0.23%	100.00%
		S31 - Property Accounting	Maintains core fixed assets and materials records, including the entry of work orders in field organizations.	% of undepreciated assets (See MM4)			34.07%	59.83%	1.30%	1.40%	3.40%								100.00%
		S32 - Disbursements	Enters accounts payable invoices and other invoice/payments.	Invoice Ratio			51 37%	31.50%	8.16%	3.76%	4.61%						0.53%	0.06%	100 00%
		S33 - Revenue Accounting	Maintains certain customer accounting records; reconciles customer system to general ledger, maintains non-electric service accounts receivable system; performs revenue analysis .	MM15			34.49%	60.72%	1.34%		3.45%								100.00%
		S34 - Regulatory Accounting	Develops regulatory financial reports and consults on proper regulatory treatment of various accounting transactions; maintains records and reports on fuel-related transactions.	MM15			34.49%	60.72%	1.34%		3.45%								100.00%

Progress Energy Service Company
Indirect Product/Service Cost Distribution Methodology

Service Company Group/Department	Product	Description	Allocation Factor	Holding Co	CP&L (Corp)	CP&L ED	CP&L ES	CP&L Retail	En Ventures	NCNG	FPC (Corp)	FPC ES	FPC ED	Elect Fuels	Prog Telecom	SRS	Monroe	Total
				Where Allocated, Affiliates Receiving Allocation														
	S35 - Diversified Investments	Handles all intercompany billing processes for subsidiaries of CP&L Energy. Also, maintains accounting records for certain subsidiaries.	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%	.	17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
Information Technology	C69 - IT Infrastructure Management	Provide management oversight across the entire function.	Information Technology Distributed Cost Ratio (Headcount used temporarily)			25.65%	12.51%	2.28%	3 03%	2.79%	3.16%	5.30%	30.67%		0.94%	Balance goes to Svc Co	0.04%	86 37%
	C70 - Applications Maintenance	Maintain and repair business software applications	na - all direct charged															
	C71 - Infrastructure & Maintenance	Provides and maintains the local area data networks, wide area data networks, fiber usage, video conferencing, voice mail, as well as network support.	Headcount Ratio			19.85%	31.33%	0.61%	2.15%	3.98%		13.73%	25.13%			3.17%	0.04%	100.00%
	S49 - Applications Develop & Enhance	Planning, design, implementation, and enhancement of business software applications.	na - all direct charged															
	S50 - Applications Operations - Mainframe	Provide computing, data storage, and printing for business software applications running on mainframe computers.	IT Application Index Ratio															
	S51 - Applications Operations - HP/UNIX	Provide computing, data storage, and printing for business software applications running on HP/UNIX servers	IT Application Index Ratio															
	S54 - Personal Computers	Provide personal computer hardware, software, remote access, and associated support personnel.	IT Standard PC Count Rate															
	S55 - Personal Computer Network	Provide e-mail, shared calendars, shared storage, Inter/Intranet access, and access to application servers.	IT Standard Headcount Rate															
Strategic Planning	C64 - Strategic Planning	Maintains responsibility for corporate strategic planning (does not develop long-term plans for line or individual corporate organizations).	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C67 - Market Research - Global	Provides market research services to the consolidated entity.	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C68 - Investor Relations/Funds Mgmt	Manages relations with the financial community and the performance of external trust funds.	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0 14%	100.00%
	C79 - Market Research - Utility	Provides market research services to the utility.	MM16			21.12%	37.00%	0.79%				19.01%	22.07%					100.00%
Tax	C50 - Tax Administration	Conducts tax planning and prepares returns, including taxes other than income.	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1 47%	0.14%	100.00%
	C77 - CP&L Tax Services	Provides CP&L Tax Services.	MM1			35.27%	61.93%	1.35%	1.45%									100.00%
	C78 - FPC Tax Services	Provides FPC Tax Services.	MM11									46.39%	53.61%					100.00%
	S59 - Payroll	Conducts time entry; maintains payroll system; runs payroll; produces payroll-related reports and processes employee expense reports.	Headcount			18.81%	29.70%	0.58%	2.04%	3.78%		13.02%	23.82%	Balance goes to Svc Co			0.04%	91.78%
Treasury	C51 - Treasury Management	Provides management oversight across the entire Treasury function.	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C54 - Cash Management	Manages the efficient movement of company funds through the banking system and secures short-term debt financing and/or investments.	MM20	0.03%		19.93%	34.76%	0.73%	0.78%	1.98%		17.88%	20.70%		1.73%	1.49%		100.00%
	C55 - Insurance Risk Management	Manages the corporate insurance program.	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100 00%
	C56 - Financial Risk Management	Measures, independently, and reports corporate risk exposures; provides risk management training, tools, controls and strategies.	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C57 - Financial Forecasting	Coordinates and develops plans and budgets for corporate and line organizations. Prepares and presents results of financial forecasts and provides financial and planning support for the regulatory and strategic planning process.	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C58 - Load Forecasting	Prepares and presents economic, load and energy forecasts.	MM19			34.46%	60.66%		1.43%	3.44%								100.00%
	C59 - Property Insurance	Property insurance premiums.	Undepreciated Assets (Default to MM6)			23.40%	34.84%	0.03%	0.05%	2.10%		18.70%	19.24%	0.01%	1.35%		0.28%	100.00%
	C60 - Liability & Workers Comp Insurance	Liability and workers' compensation insurance premiums.	Labor Dollars (Default to MM7)			27.66%	58.29%	2.40%	2.55%	3.13%				2.45%	3.53%			100 00%
	C61 - Other Insurance	Crime, directors & officers, aircraft, fiduciary and special insurance premiums.	MM8			20.03%	34.99%	0.74%	0.79%	1.99%		17.99%	20.84%	0.74%	1.74%		0.14%	100.00%
	C62 - Nuclear Premiums & Credits	Nuclear property and liability insurance credit for good experience.	Budgeted Dollars / Direct Cost for Actuals		82.00%						18.00%							100.00%
	C76 - Financial Administration Fees	Includes financial administration fees, such as bank fees.	MM1			35.27%	61.93%	1.35%	1.45%									100.00%
	S36 - Business Case Analysis	Provides analysis support for business case development for various initiatives.	MM5			20.54%	35 93%	0.77%	0.82%	2.04%		18.47%	21.42%					100 00%
Corporate Communications	C22 - Corporate Communications	Includes management oversight across the entire Corporate Communications function. Develops and distributes key company messages to external media as primary corporate spokespersons; manages company's strategic philanthropy; manages the company's brand position and ensures consistency in brand message for both internal and external audiences; directs the corporate image through advertising.coordinates support activities for special corporate events; and provides communication planning and counseling	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
	C23 - Donations	Corporate donations.	MM18 (below the line)	0.05%		33.21%	58.10%	1.24%	1.33%	3.30%						2.53%	0.23%	100.00%
	C24 - CP&L Image Advertising	Manages the company's brand position and ensures consistency in brand message for both internal and external audiences. Directs the corporate image through advertising.	MM1			35.27%	61.93%	1.35%	1.45%									100.00%

Progress Energy Service Company
Indirect Product/Service Cost Distribution Methodology

Service Company Group/Department	Product	Description	Allocation Factor	Where Allocated, Affiliates Receiving Allocation: Holding Co	CP&L (Corp)	CP&L ED	CP&L ES	CP&L Retail	En Ventures	NCNG	FPC (Corp)	FPC ES	FPC ED	Elect Fuels	Prog Telecom	SRS	Monroe	Total
	C26 - NCNG Image Advertising	Manages the company's brand position and ensures consistency in brand message for both internal and external audiences. Directs the corporate image through advertising.	(100% to NCNG)							100.00%								100.00%
	S17 - Internal Communications	Manages systems and creates tactical tools to keep employees informed and engaged about strategic business developments and their role in ensuring company success; tools include newsletters, e-mail (infobulletins), Intranet and Internet employee briefings.	Headcount			19.92%	31.45%	0.61%	2.16%	4.00%		13.78%	25.22%	0.64%	1.98%	0.20%	0.04%	100.00%
	S18 - Customer Communications	Includes communications to Energy Delivery customers.	100% to ED (G)			100.00%												100.00%
Human Resources	C27 - Human Resources Management	Provides management oversight across the Human Resources entire function.	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%		14.18%	25.96%				0.04%	100.00%
	C28 - Labor Relations	Provides corporate support for labor-related issues (union & non-union).	Headcount			19.96%	31.51%	0.62%	2.16%	4.01%		13.81%	25.27%	0.65%	1.98%		0.04%	100.00%
	C30 - Compensation	Administers base compensation, MICP, LTIP, deferred compensation, ECIP and other compensation programs.	Headcount			34.24%	54.06%	1.06%	3.71%	6.87%							0.07%	100.00%
	C31 - EEO/AA/Diversity	Provides consultation and support on affirmative action, equal employment opportunity and diversity.	Headcount			20.09%	31.71%	0.62%	2.17%	4.03%		13.90%	25.44%		2.00%		0.04%	100.00%
	S19 - HRIS	Manages overall HR information; administers the PeopleSoft HR system; provides benefits administration.	Headcount			20.09%	31.71%	0.62%	2.17%	4.03%		13.90%	25.44%		2.00%		0.04%	100.00%
	S20 - Policy/Pay/Benefit Admin.	Provides the employee information line, benefits administration, compensation administration, and policies/practices administration of corporate relocation services and pre-retirement seminars.	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%		14.18%	25.96%				0.04%	100.00%
	S21 - Organizational Effectiveness	Designs and implements HR process improvements.	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%		14.18%	25.96%				0.04%	100.00%
	S22 - Staffing/Recruiting	Recruits, screens, tests, interviews applicants, consults with managers on staffing plans and issues	Headcount			34.24%	54.06%	1.06%	3.71%	6.87%							0.07%	100.00%
	S23 - Training & Development	Provides executive and personal developmental training and employee development programs. Course attendance charged by and to customer.	Headcount			20.50%	32.36%	0.63%	2.22%	4.12%		14.18%	25.96%				0.04%	100.00%
	S24 - HR - Nuclear Generation Group	Includes cost of the HR service manager and representatives who provide HR management. Consultation & support to managers & employees in the Nuclear Generation Group.	100% to CP&L-ES				100 00%											100.00%
	S25 - HR - Power Ops Group	Includes cost of the HR service manager and representatives who provide HR management. Consultation & support to managers & employees in the Power Operations Group.	100% to CP&L-ES				100.00%											100.00%
	S26 - HR - Energy Delivery	Includes cost of the HR service manager and representatives who provide HR management Consultation & support to managers & employees in the Energy Delivery Group	100% to CP&L-ED			100.00%												100.00%
	S28 - HR - NCNG	Includes cost of the HR service manager and representatives who provide HR management. Consultation & support to managers & employees in the Gas and Energy Services Group.	100% to NCNG							100.00%								100.00%
Other	C01 - Executive Management	Provides management oversight across the entire Holding and Service Company	MM0	0.03%		19.78%	34.46%	0.72%	0.77%	1.96%		17.73%	20.51%	0.72%	1.71%	1.47%	0.14%	100.00%
(Benefits/Burdens)	C10 - Corp HQ Leasehold Improvements	Amortization of leasehold improvement projects for corporate headquarters leased facilities.	CPB & OH Sq Ft			33.75%	36.34%	0.72%	15.78%	13.41%								100.00%
	S47 - Service Co Burden Allocation	Exceptional hours, payroll tax, benefit and stores burdens.	Global ratio by department.															