Writer's Direct Dial No. 727-820-5587

R. ALEXANDER GLENN
Deputy General Counsel – Florida

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VIA HAND DELIVERY

October 17, 2007

070653-EI

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07 OCT 17 PM 2:36
COMMISSION CLERK

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

Re: Application of Progress Energy Florida, Inc. for authority to issue and sell securities during the twelve months ending December 31, 2008.

Dear Ms. Cole:

Enclosed for filing is the original certified and five (5) uncertified copies of Progress Energy Florida, Inc.'s Application for authority to issue and sell securities during the twelve months ending December 31, 2008.

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

Sincerely,

R. Alexander Glenn LMS

R. Alexander Glenn

RAG/lms
Enclosures

Progress Energy Florida, Inc.
106 E. College Avenue
Suite 800
Tallahassee, FL 32301

DOCUMENT NUMBER-DATE
09514 OCT 17 07
FPSC-COMMISSION CLERK

DOCKET NO. 070653

FLORIDA PUBLIC SERVICE COMMISSION

TALLAHASSEE, FLORIDA

APPLICATION OF

FLORIDA POWER CORPORATION D/B/A

PROGRESS ENERGY FLORIDA, INC.

FOR AUTHORITY TO ISSUE AND SELL

SECURITIES DURING THE TWELVE MONTHS ENDING DECEMBER 31, 2008

PURSUANT TO SECTION 366.04, FLORIDA STATUTES,

AND CHAPTER 25-8, FLORIDA ADMINISTRATIVE CODE

Address communications in connection with this Application to:

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

R. Alexander Glenn
Deputy General Counsel
Progress Energy Service Company, LLC,
Counsel to Progress Energy Florida, Inc.
299 1st Avenue N, Suite 151
St. Petersburg, FL 33701

DOCUMENT NUMBER-DATE
09514 OCT 17 [illegible]
FPSC-COMMISSION CLERK

Dated: October 17, 2007

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION OF FLORIDA POWER CORPORATION D/B/A PROGRESS ENERGY FLORIDA, INC. FOR AUTHORITY TO ISSUE AND SELL SECURITIES DURING THE TWELVE MONTHS ENDING DECEMBER 31, 2008 PURSUANT TO SECTION 366.04, FLORIDA STATUTES, AND CHAPTER 25-8, FLORIDA ADMINISTRATIVE CODE.

The Applicant, Florida Power Corporation d/b/a Progress Energy Florida, Inc., (herein called the "Company"), respectfully requests authority from the Florida Public Service Commission (herein called the "Commission"), to issue, sell or otherwise incur during 2008 up to $2.0 billion of any combination of equity securities and long-term debt securities and other long-term obligations (exclusive of bank loans issued under the Company's long-term credit facilities as mentioned below). Additionally, the Company requests authority to issue, sell or otherwise incur during 2008 and 2009 up to $1.0 billion outstanding at any time of short-term debt securities and other obligations, which amount shall be in addition to and in excess of the amount the Company is authorized to issue pursuant to Section 366.04, Florida Statutes, which permits the Company to issue short-term securities aggregating to not more than five percent of the par value of the Company's other outstanding securities.

The Company is wholly-owned by Florida Progress Corporation ("Florida Progress"), which is wholly-owned by Progress Energy, Inc. ("Progress Energy"). The Company hereby applies for requisite authority for these proposed financings, pursuant to Section 366.04, Florida Statutes, by submitting the following information in the manner and form prescribed in Chapter 25-8, Florida Administrative Code, including the required Exhibits A-C.

CONTENTS OF APPLICATION

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

Progress Energy Florida, Inc.
299 1st Avenue N., Suite 151
St. Petersburg, Florida 33701

(2) The Company was incorporated in Florida in 1899 and reincorporated in Florida in 1943. The Company is continuing its corporate existence pursuant to its Amended Articles of Incorporation, as amended (the "Articles of Incorporation"), a copy of which was filed as Exhibit A to the Application of Florida Power Corporation For Authority To Issue And Sell Securities During The Twelve Months Ending December 31, 1994 (Docket No. 931029-EI) and is incorporated herein by reference. The Company's financial statement schedules required under Sections 25-8.003 (1)(a)-(b), Florida Administrative Code, are filed herewith as Exhibits A (6) (i) and (ii) and B (1) and (2), respectively.

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

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

R. Alexander Glenn
Deputy General Counsel
Progress Energy Service Company, LLC
Counsel to Progress Energy Florida, Inc.
299 1st Avenue N., Suite 151
St. Petersburg, FL 33701

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

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

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

(d) The amount owned by affiliated corporations: All of the Company's outstanding common stock (100 shares) is owned by the Company's parent, Florida

Progress. The Company has no other stock or debt owned by affiliated corporations. See paragraph (10) hereof.

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

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

(5)(a)(1) The kind and the nature of the securities that the Company seeks authority to issue and sell during 2008 (and 2009 with respect to short-term debt securities and obligations), are equity securities and short-term and long-term debt securities and other obligations, including, but not limited to, borrowings from banks which are participants in credit facilities the Company may establish from time to time, uncommitted bank facilities and affiliate loans which are available through Progress Energy's utility moneypool facility. The Company also seeks authority to enter into interest rate derivative contracts to remove financial risk associated with its existing and future debt obligations.

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

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

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

The long-term debt securities and obligations may take the form of first mortgage bonds, debentures, medium-term notes or other notes, loans from affiliates and bank loans, installment contracts, credit agreements, securitization of storm cost receivables or other forms of securities and debt obligations, whether secured or unsecured, with maturities greater than one year. In addition, the Company may enter into options, rights, interest rate swaps or other derivative instruments. The Company also may enter into installment purchase and security agreements, loan agreements, or other arrangements with political subdivisions of the State of Florida or pledge debt securities or issue guarantees in connection with such political subdivisions' issuance, for the ultimate benefit of the Company, or pollution control revenue bonds, solid waste disposal revenue bonds, industrial development revenue bonds, variable rate demand notes, or other "private activity bonds"

with maturities ranging from one to forty years, or bond anticipation notes. Such obligations may or may not bear interest exempt from federal tax.

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

The manner of issuance and sale of securities will be dependent upon the type of securities being offered, the type of transaction in which the securities are being issued and sold and market conditions at the time of the issuance and sale. Securities may be issued through negotiated underwritten public offerings, public offerings at competitive biddings, private sales or sales through agents, and may be issued in both domestic and foreign markets. Credit agreements may be with banks or other lenders. The Company's commercial paper will be for terms up to but not exceeding nine months from the date of issuance. The commercial paper may be sold at a discount, including the underwriting discount of the commercial paper dealer, at rates comparable to interest rates being paid in the commercial paper market by borrowers of similar creditworthiness. The Company plans to refund, retire or redeem from time to time outstanding commercial paper and short-term

borrowings, which mature on a regular basis, with preferred stock, first mortgage bonds, medium-term notes, or other long-term securities and debt obligations.

(5)(a)(2) Contemplated to be included as long-term or short-term debt securities, as appropriate, are borrowings from banks and other lenders under the Company's credit facilities, as those may be entered into and amended from time to time. The Company's current facility is a $450 million five-year revolving credit agreement with a group of banks. Borrowings under the facility are available for general corporate purposes, including support of the Company's commercial paper program. The current five-year facility will expire on March 28, 2010.

(5)(b) The maximum principal amount of short-term securities and obligations proposed to be issued, sold, or otherwise incurred during 2008 and 2009 is $1.0 billion outstanding at any time, including commercial paper, bank loans or moneypool borrowings, which amount shall be in addition to and in excess of the amount the Company is authorized to issue pursuant to Section 366.04, Florida Statutes, which permits the Company to issue short-term securities aggregating not more than five percent of the par value of the Company's other outstanding securities. The maximum principal amount of equity securities, long-term debt securities and other long-term obligations (exclusive of bank loans issued under the Company's long-term credit facilities as mentioned above) proposed to be issued, sold, or otherwise incurred during 2008 is $2.0 billion.

The Company will file a consummation report with the Commission in compliance with Rule 25-8.009, Florida Administrative Code, within 90 days after the close of the 2008 calendar year to report any securities issued during that year.

(5)(c) On September 30, 2007, the estimate of the interest rates for securities

proposed to be issued by the Company were as follows (with reference to current rates for comparable securities):

1. 10-year BBB+ rated senior unsecured debt: 6.10%.

2. 10-year A- rated first mortgage bonds: 5.90%.

3. Second-tier 30-day commercial paper sold through dealers (on a bond equivalent basis): 5.50%.

4. Prime interest rate: 7.75%.

The actual interest rates to be paid by the Company during 2008 will be determined by the market conditions at the time of issuance.

(6) The net proceeds to be received from the sale of the additional securities will be added to the Company's general funds and may be used to provide additional electric facilities during 2008 pursuant to the Company's construction program, to repay maturing long-term debt or short-term unsecured debt, to refund, retire or redeem existing obligations, or for other corporate purposes.

A more detailed statement of the Projected Sources and Uses of Funds during 2008 is included as Exhibit B(1) attached hereto. The Company's construction program is developed from its long-range plan to determine needed construction facilities. While the final 2008 Construction Budget is not yet available, the Company's most recently approved construction expenditures forecast excluding Allowance for Funds Used During Construction ("AFUDC") for 2008 is approximately $1.6 billion. A detailed listing of this 2008 construction program excluding AFUDC is found in Exhibit B(2) attached hereto. These construction estimates are subject to periodic review and revision to adjust for such factors as changing economic conditions, environmental requirements, regulatory matters

and changing customer usage patterns.

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

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

Progress Energy Florida, Inc.
299 1st Avenue N.
Suite 151
St. Petersburg, Florida 33701

(9) Except for those issuances of securities that are exempt from the registration requirements of the Securities Act of 1933, the issue and sale of the various securities involved herein will require the filing of Registration Statements with the United States Securities and Exchange Commission ("SEC"), 100 F Street N.E., Washington, DC 20549. A copy of each Registration Statement that has been or will be filed with the SEC will be included with the Company's annual Consummation Report relating to the sale of securities registered thereunder. No other state or federal regulatory body has jurisdiction over the transactions proposed herein, although certain state securities or "blue sky" laws may require the filing of registration statements, consents to service of process or other documents with applicable state securities commissions, including in particular the Florida Division of

Securities and Investor Protection, 101 E. Gaines St., Tallahassee, FL 32399; the Nevada Department of State, Securities Division, 555 East Washington Avenue, 5th Floor, Las Vegas, NV 89101; the New York Department of Law, Bureau of Investor Protection and Securities, 120 Broadway, 23rd Floor, New York, NY 10271; and the Oregon Department of Consumer & Business Services, Division of Finance & Corporate Securities, Labor & Industries Building, Salem, OR 97310.

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

Following the closing of the share exchange, Progress Energy became a registered holding company under the Public Utility Holding Company Act of 1935 (the "Act"). Progress Energy retained Florida Progress as a wholly owned subsidiary and Florida Progress continues to own all of the issued and outstanding common stock of the Company. Thus, Progress Energy indirectly owns all of the common stock of the Company. Florida Progress remains generally exempt from registration under the Act and attendant regulation because its utility operations are primarily intrastate. On February 8, 2006, the Act was repealed, and the Public Utility Holding Company Act of 2005 was enacted.

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

Exhibit A (6)(i)	The financial statements and accompanying footnotes as they appear in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and filed with the SEC in file no. 1-15929 on March 1, 2007.
Exhibit A (6)(ii)	The financial statements and accompanying footnotes as they appear in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, and filed with the SEC in file no. 1-15929 on August 8, 2007.
Exhibit B(1)	Projected Sources and Uses of Funds Statement for 2008.
Exhibit B(2)	Preliminary Construction Expenditures for 2008.
Exhibit C	Capital Stock and Funded Debt of the Company as of September 30, 2007.

WHEREFORE, the Company hereby respectfully requests that the Commission enter its Order approving this Application for authority to issue and sell securities during the twelve months ending December 31, 2008, and more specifically, to order that:

(a) The request of Progress Energy Florida, Inc. to issue and sell securities during the twelve months ending December 31, 2008, pursuant to Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code (the "Application") is granted;

(b) Progress Energy Florida, Inc. is authorized to issue, sell, or otherwise incur during 2008 up to $2.0 billion of any combination of equity securities and long-term debt securities and other long-term obligations (exclusive of bank loans issued under the Company's long-term credit facilities as mentioned above). Additionally, the Company requests authority to issue, sell or otherwise incur during 2008 and 2009 up to $1.0 billion outstanding at any time of short-term

debt securities and other obligations, which amount shall be in addition to and in excess of the amount the Company is authorized to issue pursuant to Section 366.04, Florida Statutes, which permits the Company to issue short-term securities aggregating to not more than five percent of the par value of the Company's other outstanding securities.

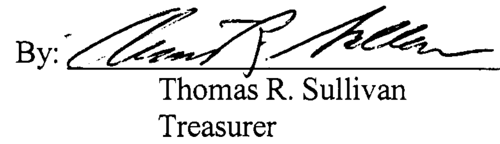
(c) The kind and nature of the securities that Progress Energy Florida, Inc. is authorized to issue during 2008 (and 2009 with respect to short-term debt securities and obligations) are equity securities and short-term and long-term debt securities and other obligations, as set forth in the Company's Application;

(d) Progress Energy Florida, Inc. shall file a Consummation Report in accordance with Rule 25-8.009, Florida Administrative Code, within 90 days after the close of the 2008 calendar year.

[The remainder of this page was intentionally left blank.]

Respectfully submitted this
17th day of October, 2007

PROGRESS ENERGY FLORIDA, INC.

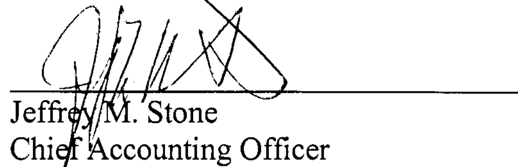
By: 
Thomas R. Sullivan
Treasurer

[Signature page for Progress Energy Florida's 2007 Application for Authority to Issue and Sell Securities]

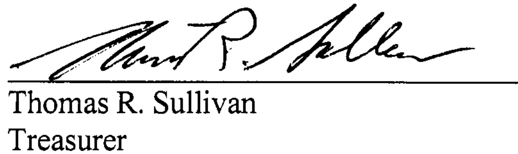
STATE OF NORTH CAROLINA)
)
COUNTY OF WAKE)

CERTIFICATION OF APPLICATION AND EXHIBITS

Each of the undersigned, Jeffrey M. Stone and Thomas R. Sullivan, being first duly sworn, deposes and says that he is the Chief Accounting Officer, and the Treasurer, respectively, of PROGRESS ENERGY FLORIDA, INC., the Applicant herein; that he has read the foregoing application and exhibits of said Progress Energy Florida, Inc. and knows the contents thereof; and certifies that the same are true and correct to the best of his knowledge and belief.



Jeffrey M. Stone
Chief Accounting Officer



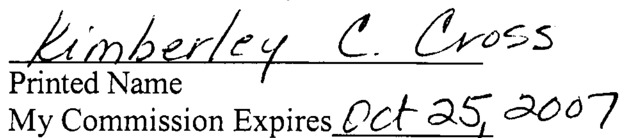
Thomas R. Sullivan
Treasurer

STATE OF NORTH CAROLINA)
)
COUNTY OF WAKE)

The foregoing instrument was acknowledged before me this 17th day of October, 2007, by Jeffrey M. Stone and Thomas R. Sullivan, who are personally known to me and who did take an oath.

(Seal)

Notary Public



Kimberley C. Cross
Printed Name
My Commission Expires Oct 25, 2007

Exhibit A(6)(i)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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Progress Energy, Inc. (Progress Energy)	
Report of Independent Registered Public Accounting Firm	113
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Consolidated Balance Sheets at December 31, 2006 and 2005	115
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Each of the preceding combined notes to the financial statements of the Progress Registrants are applicable to Progress Energy, Inc. but not to each of PEC and PEF. The following table sets forth which notes are applicable to each of PEC and PEF.

Registrant	Applicable Notes
PEC	1, 2, 5 through 10, 12 through 14, 16 through 22 and 24
PEF	1 through 3, 5 through 10, 12 through 14, 16 through 22 and 24

Consolidated Financial Statement Schedules for the Years Ended December 31, 2006, 2005 and 2004:

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Schedule II - Valuation and Qualifying Accounts - Progress Energy, Inc.	223
Report of Independent Registered Public Accounting Firm on Financial Statement Schedule - Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.	224
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All other schedules have been omitted as not applicable or are not required because the information required to be shown is included in the Financial Statements or the Combined Notes to the Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Progress Energy, Inc., and its subsidiaries (the Company) at December 31, 2006 and 2005, and the related consolidated statements of income, comprehensive income, changes in common stock equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, in 2006 the Company adopted Statement of Financial Accounting Standards No. 158, and in 2005 the Company adopted Statement of Financial Accounting Standards No. 123R and Financial Accounting Standards Board Interpretation No. 47.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting at December 31, 2006, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2007, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
February 28, 2007

http://phx.corporate-ir.net/SECCapsule/SECDocument.asp?fid=4726195&vfid=4711364... 10/12/2007

PROGRESS ENERGY, INC.
CONSOLIDATED STATEMENTS of INCOME

(in millions except per share data) Years ended December 31	2006	2005	2004
Operating revenues			
Electric	$ 8,722	$ 7,945	$ 7,153
Diversified business	848	1,223	900
Total operating revenues	9,570	9,168	8,053
Operating expenses			
Utility			
Fuel used in electric generation	3,008	2,359	2,011
Purchased power	1,100	1,048	868
Operation and maintenance	1,583	1,770	1,475
Depreciation and amortization	1,009	922	878
Taxes other than on income	500	460	425
Other	(3)	(37)	(13)
Diversified business			
Cost of sales	898	1,353	992
Depreciation and amortization	23	41	41
Impairments of assets	91	-	-
Gain on the sales of assets	(4)	(30)	(8)
Other	56	62	112
Total operating expenses	8,261	7,948	6,781
Operating income	1,309	1,220	1,272
Other income (expense)			
Interest income	61	16	11
Other, net	(18)	(7)	4
Total other income	43	9	15
Interest charges			
Net interest charges	632	587	572
Allowance for borrowed funds used during construction	(7)	(13)	(6)
Total interest charges, net	625	574	566
Income from continuing operations before income tax and minority interest	727	655	721
Income tax expense (benefit)	204	(37)	67
Income from continuing operations before minority interest	523	692	654
Minority interest in subsidiaries' (income) loss, net of tax	(9)	29	19
Income from continuing operations	514	721	673
Discontinued operations, net of tax	57	(25)	86
Cumulative effect of change in accounting principle, net of tax	-	1	-
Net income	$ 571	$ 697	$ 759
Average common shares outstanding - basic	250	247	242
Basic earnings per common share			
Income from continuing operations	$ 2.05	$ 2.92	$ 2.78
Discontinued operations, net of tax	0.23	(0.10)	0.35
Net income	$ 2.28	$ 2.82	$ 3.13
Diluted earnings per common share			
Income from continuing operations	$ 2.05	$ 2.92	$ 2.77

Discontinued operations, net of tax	**0.23**	(0.10)	0.35
Net income	**$ 2.28**	$ 2.82	$ 3.12
Dividends declared per common share	**$ 2.43**	$ 2.38	$ 2.32

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

PROGRESS ENERGY, INC.
CONSOLIDATED BALANCE SHEETS

(in millions) December 31	2006	2005
ASSETS		
Utility plant		
Utility plant in service	$ 23,743	$ 22,940
Accumulated depreciation	(10,064)	(9,602)
Utility plant in service, net	13,679	13,338
Held for future use	10	12
Construction work in progress	1,289	813
Nuclear fuel, net of amortization	267	279
Total utility plant, net	15,245	14,442
Current assets		
Cash and cash equivalents	265	605
Short-term investments	71	191
Receivables, net	930	997
Inventory	969	823
Deferred fuel cost	196	602
Deferred income taxes	159	37
Assets of discontinued operations	887	2,566
Prepayments and other current assets	108	186
Total current assets	3,585	6,007
Deferred debits and other assets		
Regulatory assets	1,231	854
Nuclear decommissioning trust funds	1,287	1,133
Diversified business property, net	31	78
Miscellaneous other property and investments	456	476
Goodwill	3,655	3,655
Intangibles, net	-	59
Other assets and deferred debits	211	358
Total deferred debits and other assets	6,871	6,613
Total assets	$ 25,701	$ 27,062
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 500 million shares authorized, 256 and 252 million shares issued and outstanding, respectively	$ 5,791	$ 5,571
Unearned ESOP shares (2 and 3 million shares, respectively)	(50)	(63)
Accumulated other comprehensive loss	(49)	(104)
Retained earnings	2,594	2,634
Total common stock equity	8,286	8,038
Preferred stock of subsidiaries - not subject to mandatory redemption	93	93
Minority interest	10	36
Long-term debt, affiliate	271	270
Long-term debt, net	8,564	10,176
Total capitalization	17,224	18,613
Current liabilities		
Current portion of long-term debt	324	513

Accounts payable	**712**	601
Interest accrued	**171**	208
Dividends declared	**156**	152
Short-term debt	**-**	175
Customer deposits	**227**	200
Liabilities of discontinued operations	**189**	542
Income taxes accrued	**284**	116
Other current liabilities	**755**	542
Total current liabilities	**2,818**	3,049
Deferred credits and other liabilities		
Noncurrent income tax liabilities	**306**	198
Accumulated deferred investment tax credits	**151**	163
Regulatory liabilities	**2,543**	2,527
Asset retirement obligations	**1,306**	1,242
Accrued pension and other benefits	**957**	865
Other liabilities and deferred credits	**396**	405
Total deferred credits and other liabilities	**5,659**	5,400
Commitments and contingencies (Notes 21 and 22)		
Total capitalization and liabilities	**$ 25,701**	$ 27,062

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

PROGRESS ENERGY, INC.
CONSOLIDATED STATEMENTS of CASH FLOWS

(in millions) Years ended December 31	**2006**	2005	2004
Operating activities			
Net income	**$571**	$697	$759
Adjustments to reconcile net income to net cash provided by operating activities			
(Income) loss from discontinued operations, net of tax	**(57)**	25	(86)
Gain on sales of operating assets	**(7)**	(67)	(21)
Impairment of long-lived assets and investments	**92**	-	-
Charges for voluntary enhanced retirement program	**-**	159	-
Depreciation and amortization	**1,119**	1,083	1,037
Deferred income taxes	**(72)**	(379)	(118)
Investment tax credit	**(12)**	(13)	(14)
Deferred fuel cost (credit)	**396**	(317)	(19)
Other adjustments to net income	**85**	157	113
Cash provided (used) by changes in operating assets and liabilities			
Receivables	**47**	(154)	16
Inventory	**(171)**	(136)	(84)
Prepayments and other current assets	**(71)**	(78)	19
Accounts payable	**46**	103	(30)
Other current liabilities	**(70)**	109	67
Regulatory assets and liabilities	**11**	(74)	(234)
Other liabilities and deferred credits	**(44)**	101	(60)
Other assets and deferred debits	**49**	(41)	64
Net cash provided by operating activities	**1,912**	1,175	1,409
Investing activities			
Gross utility property additions	**(1,423)**	(1,080)	(998)
Diversified business property additions	**(2)**	(6)	(6)
Nuclear fuel additions	**(114)**	(126)	(101)
Proceeds from sales of discontinued operations and other assets, net of cash divested	**1,654**	475	372
Purchases of available-for-sale securities and other investments	**(2,452)**	(3,985)	(3,134)
Proceeds from sales of available-for-sale securities and other investments	**2,631**	3,845	3,248
Other investing activities	**(23)**	(37)	(30)
Net cash provided (used) by investing activities	**271**	(914)	(649)
Financing activities			
Issuance of common stock	**185**	208	73
Proceeds from issuance of long-term debt, net	**397**	1,642	421
Net (decrease) increase in short-term debt	**(175)**	(509)	680
Retirement of long-term debt	**(2,200)**	(564)	(1,112)
Dividends paid on common stock	**(607)**	(582)	(558)
Cash distributions to minority interests of consolidated subsidiary	**(79)**	-	-
Other financing activities	**11**	34	11
Net cash (used) provided by financing activities	**(2,468)**	229	(485)
Cash provided (used) by discontinued operations			
Operating activities	**86**	294	191
Investing activities	**(141)**	(232)	(199)

Financing activities	-	(2)	(246)
Net (decrease) increase in cash and cash equivalents	**(340)**	550	21
Cash and cash equivalents at beginning of year	**605**	55	34
Cash and cash equivalents at end of year	**$265**	$605	$55
Supplemental disclosures of cash flow information			
Cash paid during the year - interest (net of amount capitalized)	**$692**	$643	$639
income taxes (net of refunds)	**$311**	$168	$189

Noncash activities

- In addition to normal and recurring accruals for capital additions, Progress Energy Florida recorded purchases and construction costs for utility plant and equipment and a corresponding liability for $47 million related to additions at an electric generation facility in 2006. Actual cash expenditures will not occur until 2007.
- In 2005, Progress Energy Florida entered into a capital lease agreement for a building that was completed in 2006, at which point Progress Energy Florida recorded a capital lease asset and obligation for $54 million.

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

PROGRESS ENERGY, INC.

CONSOLIDATED STATEMENTS of CHANGES in COMMON STOCK EQUITY

(in millions except per share data)	Common Stock Outstanding Shares	Common Stock Amount	Unearned Restricted Shares	Unearned ESOP Shares	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Common Stock Equity
Balance, December 31, 2003	246	$ 5,270	$ (17)	$ (89)	$ (50)	$ 2,330	$ 7,444
Net income		-	-	-	-	759	759
Other comprehensive loss		-	-	-	(114)	-	(114)
Comprehensive income							645
Issuance of shares	1	62	-	-	-	-	62
Stock options exercised		18	-	-	-	-	18
Purchase of restricted stock		-	(7)	-	-	-	(7)
Restricted stock expense recognition		-	7	-	-	-	7
Cancellation of restricted shares		(4)	4	-	-	-	-
Allocation of ESOP shares		14	-	13	-	-	27
Dividends ($2.32 per share)		-	-	-	-	(563)	(563)
Balance, December 31, 2004	247	5,360	(13)	(76)	(164)	2,526	7,633
Net income		-	-	-	-	697	697
Other comprehensive income		-	-	-	60	-	60
Comprehensive income							757
Issuance of shares	5	199	-	-	-	-	199
Presentation reclassification - SFAS No. 123R adoption		(13)	13	-	-	-	-
Stock options exercised		8	-	-	-	-	8
Purchase of restricted stock		(8)	-	-	-	-	(8)
Restricted stock expense recognition		3	-	-	-	-	3
Allocation of ESOP shares		12	-	13	-	-	25
Stock-based compensation expense		10	-	-	-	-	10
Dividends ($2.38 per share)		-	-	-	-	(589)	(589)
Balance, December 31, 2005	**252**	**5,571**	**-**	**(63)**	**(104)**	**2,634**	**8,038**
Net income		**-**	**-**	**-**	**-**	**571**	**571**
Other comprehensive loss		**-**	**-**	**-**	**(18)**	**-**	**(18)**
Comprehensive income							**553**
Adjustment to initially apply SFAS No. 158, net of tax		**-**	**-**	**-**	**73**	**-**	**73**
Issuance of shares	**4**	**70**	**-**	**-**	**-**	**-**	**70**
Stock options exercised		**115**	**-**	**-**	**-**	**-**	**115**
Purchase of restricted stock		**(8)**	**-**	**-**	**-**	**-**	**(8)**
Restricted stock expense recognition		**5**	**-**	**-**	**-**	**-**	**5**
Allocation of ESOP shares		**13**	**-**	**13**	**-**	**-**	**26**
Stock-based compensation expense		**25**	**-**	**-**	**-**	**-**	**25**
Dividends ($2.43 per share)		**-**	**-**	**-**	**-**	**(611)**	**(611)**
Balance, December 31, 2006	**256**	**$ 5,791**	**$ -**	**$ (50)**	**$ (49)**	**$ 2,594**	**$ 8,286**

PROGRESS ENERGY, INC.

CONSOLIDATED STATEMENTS of COMPREHENSIVE INCOME

(in millions) Years ended December 31		**2006**		2005		2004
Net income	**$**	**571**	$	697	$	759
Other comprehensive (loss) income						
Reclassification adjustment for amounts included in net income:						
Cash flow hedges (net of tax benefit (expense) of $28, $(26) and $(16), respectively)		**(46)**		46		26
Foreign currency translation adjustments included in discontinued operations		**-**		(6)		-
Minimum pension liability adjustment included in discontinued operations (net of tax expense of $1)		**-**		1		-
Changes in net unrealized (losses) gains on cash flow hedges (net of tax benefit (expense) of $16, ($26) and $10, respectively)		**(23)**		37		(18)
Reclassification of minimum pension liability to regulatory assets (net of tax expense of $2)		**-**		-		4
Minimum pension liability adjustment (net of tax (expense) benefit of $(30), $22 and $78, respectively)		**48**		(19)		(130)
Foreign currency translation and other (net of tax expense of $-, $1 and $-, respectively)		**3**		1		4
Other comprehensive (loss) income		**(18)**		60		(114)
Comprehensive income	**$**	**553**	$	757	$	645

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc., and its subsidiaries (PEC) at December 31, 2006 and 2005, and the related consolidated statements of income, changes in common stock equity, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of PEC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PEC at December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, in 2006 PEC adopted Statement of Financial Accounting Standards No. 158, and in 2005 PEC adopted Statement of Financial Accounting Standards No. 123R and Financial Accounting Standards Board Interpretation No. 47.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
February 28, 2007

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

CONSOLIDATED STATEMENTS of INCOME

(in millions) Years ended December 31	**2006**	2005	2004
Operating revenues			
Electric	**$ 4,085**	$ 3,990	$ 3,628
Diversified business	**1**	1	1
Total operating revenues	**4,086**	3,991	3,629
Operating expenses			
Fuel used in electric generation	**1,173**	1,036	836
Purchased power	**334**	354	301
Operation and maintenance	**930**	941	871
Depreciation and amortization	**571**	561	570
Taxes other than on income	**191**	178	173
Other	**(1)**	(11)	(12)
Diversified business	**1**	1	1
Total operating expenses	**3,199**	3,060	2,740
Operating income	**887**	931	889
Other income (expense)			
Interest income	**25**	8	4
Other, net	**25**	(15)	(1)
Total other income (expense)	**50**	(7)	3
Interest charges			
Interest charges	**217**	197	195
Allowance for borrowed funds used during construction	**(2)**	(5)	(3)
Total interest charges, net	**215**	192	192
Income before income taxes	**722**	732	700
Income tax expense	**265**	239	239
Net income	**457**	493	461
Preferred stock dividend requirement	**3**	3	3
Earnings for common stock	**$ 454**	$ 490	$ 458

See Notes to PEC Consolidated Financial Statements.

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

CONSOLIDATED BALANCE SHEETS

(in millions) December 31	2006	2005
ASSETS		
Utility plant		
Utility plant in service	$ 14,356	$ 13,994
Accumulated depreciation	(6,408)	(6,120)
Utility plant in service, net	7,948	7,874
Held for future use	3	3
Construction work in progress	617	399
Nuclear fuel, net of amortization	209	203
Total utility plant, net	8,777	8,479
Current assets		
Cash and cash equivalents	71	125
Short-term investments	50	191
Receivables, net	473	518
Receivables from affiliated companies	27	24
Note receivable from affiliated company	24	-
Inventory	497	451
Deferred fuel cost	196	261
Prepayments and other current assets	45	20
Total current assets	1,383	1,590
Deferred debits and other assets		
Regulatory assets	777	421
Nuclear decommissioning trust funds	735	640
Miscellaneous other property and investments	193	188
Other assets and deferred debits	155	184
Total deferred debits and other assets	1,860	1,433
Total assets	$ 12,020	$ 11,502
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, authorized 200 million shares, 160 million shares issued and outstanding at December 31	$ 2,010	$ 1,981
Unearned ESOP common stock	(50)	(63)
Accumulated other comprehensive loss	(1)	(120)
Retained earnings	1,431	1,320
Total common stock equity	3,390	3,118
Preferred stock - not subject to mandatory redemption	59	59
Long-term debt, net	3,470	3,667
Total capitalization	6,919	6,844
Current liabilities		
Current portion of long-term debt	200	-
Accounts payable	310	247
Payables to affiliated companies	108	73
Notes payable to affiliated companies	-	11
Interest accrued	69	73
Short-term debt	-	73

Customer deposits		**59**		52
Income taxes accrued		**68**		100
Current portion of unearned revenue		**71**		70
Other current liabilities		**154**		185
Total current liabilities		**1,039**		884
Deferred credits and other liabilities				
Noncurrent income tax liabilities		**909**		814
Accumulated deferred investment tax credits		**128**		133
Regulatory liabilities		**1,320**		1,196
Asset retirement obligations		**1,004**		949
Accrued pension and other benefits		**581**		511
Other liabilities and deferred credits		**120**		171
Total deferred credits and other liabilities		**4,062**		3,774
Commitments and contingencies (Notes 21 and 22)				
Total capitalization and liabilities	**$**	**12,020**	$	11,502

See Notes to PEC Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS of CASH FLOWS

(in millions) Years ended December 31	**2006**	2005	2004
Operating activities			
Net income	**$457**	$493	$461
Adjustments to reconcile net income to net cash provided by operating activities			
Charges for voluntary enhanced retirement program	**-**	42	-
Depreciation and amortization	**656**	644	658
Deferred income taxes and investment tax credits, net	**(59)**	(150)	(26)
Deferred fuel credit	**(8)**	(144)	(56)
Other adjustments to net income	**(23)**	69	50
Cash provided (used) by changes in operating assets and liabilities			
Receivables	**36**	(111)	(4)
Receivables from affiliated companies	**9**	11	15
Inventory	**(69)**	(91)	(22)
Prepayments and other current assets	**10**	9	17
Accounts payable	**56**	9	34
Payables to affiliated companies	**32**	(13)	(53)
Other current liabilities	**(40)**	239	11
Regulatory assets and liabilities	**1**	2	9
Other liabilities and deferred credits	**(2)**	42	(63)
Other assets and deferred debits	**38**	(19)	45
Net cash provided by operating activities	**1,094**	1,032	1,076
Investing activities			
Gross utility property additions	**(705)**	(603)	(519)
Proceeds from sales of assets	**5**	14	25
Nuclear fuel additions	**(102)**	(79)	(101)
Purchases of available-for-sale securities and other investments	**(896)**	(1,832)	(2,479)
Proceeds from sales of available-for-sale securities and other investments	**1,006**	1,692	2,592
Other investing activities	**(30)**	(3)	(3)
Net cash used in investing activities	**(722)**	(811)	(485)
Financing activities			
Proceeds from issuance of long-term debt, net	**-**	898	-
Net (decrease) increase in short-term debt	**(73)**	(148)	217
Changes in advances from affiliates	**(11)**	(105)	91
Retirement of long-term debt	**-**	(300)	(339)
Dividends paid to parent	**(339)**	(457)	(551)
Dividends paid on preferred stock	**(3)**	(3)	(3)
Other financing activities	**-**	1	-
Net cash used in financing activities	**(426)**	(114)	(585)
Net (decrease) increase in cash and cash equivalents	**(54)**	107	6
Cash and cash equivalents at beginning of year	**125**	18	12
Cash and cash equivalents at end of year	**$71**	$125	$18
Supplemental disclosures of cash flow information			
Cash paid during the year - interest (net of amount capitalized)	**$210**	$187	$185
income taxes (net of refunds)	**$347**	$222	$286

See Notes to PEC Consolidated Financial Statements.

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.
CONSOLIDATED STATEMENTS of CHANGES in COMMON STOCK EQUITY

(in millions except shares outstanding)	Common Stock Outstanding Shares	Common Stock Outstanding Amount	Unearned ESOP Shares	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Common Stock Equity
Balance, December 31, 2003	160	$ 1,953	$ (89)	$ (7)	$ 1,380	$ 3,237
Net income		-	-	-	461	461
Other comprehensive loss		-	-	(107)	-	(107)
Comprehensive income						354
Allocation of ESOP shares		22	13	-	-	35
Preferred stock dividends at stated rates		-	-	-	(3)	(3)
Dividends paid to parent		-	-	-	(551)	(551)
Balance, December 31, 2004	160	1,975	(76)	(114)	1,287	3,072
Net income		-	-	-	493	493
Other comprehensive loss		-	-	(6)	-	(6)
Comprehensive income						487
Stock-based compensation expense		3	-	-	-	3
Allocation of ESOP shares		20	13	-	-	33
Noncash dividend to parent		(17)	-	-	-	(17)
Preferred stock dividends at stated rates		-	-	-	(3)	(3)
Dividends paid to parent		-	-	-	(457)	(457)
Balance, December 31, 2005	**160**	**1,981**	**(63)**	**(120)**	**1,320**	**3,118**
Net income		**-**	**-**	**-**	**457**	**457**
Other comprehensive income		**-**	**-**	**36**	**-**	**36**
Comprehensive income						**493**
Adjustment to initially apply SFAS No. 158, net of tax		**-**	**-**	**83**	**-**	**83**
Stock-based compensation expense		**10**	**-**	**-**	**-**	**10**
Allocation of ESOP shares		**19**	**13**	**-**	**-**	**32**
Preferred stock dividends at stated rates		**-**	**-**	**-**	**(3)**	**(3)**
Dividends paid to parent		**-**	**-**	**-**	**(339)**	**(339)**
Tax benefit dividend		**-**	**-**	**-**	**(4)**	**(4)**
Balance, December 31, 2006	**160**	**$ 2,010**	**$ (50)**	**$ (1)**	**$ 1,431**	**$ 3,390**

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

(in millions) Years ended December 31	2006	2005	2004
Net income	**$ 457**	$ 493	$ 461
Other comprehensive (loss) income			
Changes in net unrealized (losses) gains on cash flow hedges (net of tax benefit (expense) of $2, ($2), and $1, respectively)	**(2)**	3	(1)
Reclassification adjustment for amounts included in net income			

(net of tax expense of $-)		-		1		-
Minimum pension liability adjustment (net of tax (expense) benefit of $(23), $7, and $68, respectively)		**36**		(12)		(106)
Other (net of tax benefit (expense) of $1, $(1), and $-, respectively)		**2**		2		-
Other comprehensive income (loss)		**36**		(6)		(107)
Comprehensive income	**$**	**493**	$	487	$	354

See Notes to PEC Consolidated Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying balance sheets of Florida Power Corporation d/b/a Progress Energy Florida, Inc. (PEF) at December 31, 2006 and 2005, and the related statements of income, changes in common stock equity, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of PEF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of PEF at December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, in 2006 PEF adopted Statement of Financial Accounting Standards No. 158, and in 2005 PEF adopted Statement of Financial Accounting Standards No. 123R and Financial Accounting Standards Board Interpretation No. 47.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
February 28, 2007

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

STATEMENTS of INCOME

(in millions) Years ended December 31	**2006**	2005	2004
Operating revenues	**$ 4,639**	$ 3,955	$ 3,525
Operating expenses			
Fuel used in electric generation	**1,835**	1,323	1,175
Purchased power	**766**	694	567
Operation and maintenance	**684**	852	630
Depreciation and amortization	**404**	334	281
Taxes other than on income	**309**	279	254
Other	**(2)**	(26)	(2)
Total operating expenses	**3,996**	3,456	2,905
Operating income	**643**	499	620
Other income			
Interest income	**15**	1	-
Other, net	**13**	7	3
Total other income	**28**	8	3
Interest charges			
Interest charges	**155**	134	117
Allowance for borrowed funds used during construction	**(5)**	(8)	(3)
Total interest charges, net	**150**	126	114
Income before income taxes	**521**	381	509
Income tax expense	**193**	121	174
Net income	**328**	260	335
Preferred stock dividend requirement	**2**	2	2
Earnings for common stock	**$ 326**	$ 258	$ 333

See Notes to PEF Financial Statements.

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

(in millions) December 31	**2006**	2005
ASSETS		
Utility plant		
Utility plant in service	**$ 9,202**	$ 8,756
Accumulated depreciation	**(3,602)**	(3,434)
Utility plant in service, net	**5,600**	5,322
Held for future use	**7**	9
Construction work in progress	**672**	414
Nuclear fuel, net of amortization	**58**	76
Total utility plant, net	**6,337**	5,821
Current assets		
Cash and cash equivalents	**23**	218
Receivables, net	**340**	331
Receivables from affiliated companies	**11**	11
Deferred income taxes	**86**	12
Inventory	**436**	311
Deferred fuel cost	**-**	341
Income taxes receivable	**47**	-
Derivative assets	**-**	77
Prepayments and other current assets	**62**	23
Total current assets	**1,005**	1,324
Deferred debits and other assets		
Regulatory assets	**454**	351
Nuclear decommissioning trust funds	**552**	493
Miscellaneous other property and investments	**45**	47
Prepaid pension cost	**174**	200
Other assets and deferred debits	**26**	82
Total deferred debits and other assets	**1,251**	1,173
Total assets	**$ 8,593**	$ 8,318
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 60 million shares authorized, 100 shares issued and outstanding	**$ 1,100**	$ 1,097
Accumulated other comprehensive loss	**(1)**	-
Retained earnings	**1,588**	1,498
Total common stock equity	**2,687**	2,595
Preferred stock - not subject to mandatory redemption	**34**	34
Long-term debt, net	**2,468**	2,554
Total capitalization	**5,189**	5,183
Current liabilities		
Current portion of long-term debt	**89**	48
Accounts payable	**292**	237
Payables to affiliated companies	**116**	101
Notes payable to affiliated companies	**47**	13
Short-term debt	**-**	102

Customer deposits	**168**	148
Interest accrued	**38**	42
Derivative liabilities	**89**	-
Current regulatory liabilities	**76**	10
Other current liabilities	**89**	91
Total current liabilities	**1,004**	792
Deferred credits and other liabilities		
Noncurrent income tax liabilities	**466**	433
Accumulated deferred investment tax credits	**23**	30
Regulatory liabilities	**1,091**	1,189
Asset retirement obligations	**299**	290
Accrued pension and other benefits	**332**	257
Other liabilities and deferred credits	**189**	144
Total deferred credits and other liabilities	**2,400**	2,343
Commitments and contingencies (Notes 21 and 22)		
Total capitalization and liabilities	**$ 8,593**	$ 8,318

See Notes to PEF Financial Statements.

FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.
STATEMENTS of CASH FLOWS

(in millions) Years ended December 31	**2006**	2005	2004
Operating activities			
Net income	**$ 328**	$ 260	$ 335
Adjustments to reconcile net income to net cash provided by operating activities			
Gain on sales of operating assets	**(2)**	(26)	(1)
Charges for voluntary enhanced retirement program	**-**	92	-
Depreciation and amortization	**433**	367	310
Deferred income taxes and investment tax credits, net	**(48)**	(50)	110
Deferred fuel cost (credit)	**404**	(173)	37
Other adjustments to net income	**21**	45	(13)
Cash (used) provided by changes in operating assets and liabilities			
Receivables	**(23)**	(70)	(20)
Receivables from affiliated companies	**-**	4	(8)
Inventory	**(128)**	(34)	(36)
Prepayments and other current assets	**(37)**	(22)	2
Accounts payable	**3**	52	13
Payables to affiliated companies	**15**	21	14
Other current liabilities	**(35)**	(7)	11
Regulatory assets and liabilities	**10**	(76)	(243)
Other liabilities and deferred credits	**(52)**	50	14
Other assets and deferred debits	**4**	(3)	8
Net cash provided by operating activities	**893**	430	533
Investing activities			
Gross utility property additions	**(727)**	(496)	(492)
Nuclear fuel additions	**(12)**	(47)	-
Proceeds from sales of assets	**3**	43	-
Purchases of available-for-sale securities and other investments	**(625)**	(405)	(569)
Proceeds from sales of available-for-sale securities and other investments	**625**	405	569
Other investing activities	**1**	(6)	(4)
Net cash used in investing activities	**(735)**	(506)	(496)
Financing activities			
Proceeds from issuance of long-term debt, net	**-**	744	56
Net (decrease) increase in short-term debt	**(102)**	(191)	293
Retirement of long-term debt	**(48)**	(102)	(43)
Changes in advances from affiliates	**34**	(165)	(185)
Dividends paid to parent	**(234)**	-	(155)
Dividends paid on preferred stock	**(2)**	(2)	(2)
Other financing activities	**(1)**	(2)	1
Net cash (used) provided by financing activities	**(353)**	282	(35)
Net (decrease) increase in cash and cash equivalents	**(195)**	206	2
Cash and cash equivalents at beginning of year	**218**	12	10
Cash and cash equivalents at end of year	**$ 23**	$ 218	$ 12

Supplemental disclosures of cash flow information						
Cash paid during the year- interest (net of amount capitalized)	**$**	**152**	$	131	$	118
income taxes (net of refunds)	**$**	**296**	$	185	$	57

Noncash activities

- In addition to normal and recurring accruals for capital additions, Progress Energy Florida recorded purchases and construction costs for utility plant and equipment and a corresponding liability for $47 million related to additions at an electric generation facility in 2006. Actual cash expenditures will not occur until 2007.
- In 2005, Progress Energy Florida entered into a capital lease agreement for a building that was completed in 2006, at which point Progress Energy Florida recorded a capital lease asset and obligation for $54 million.

See Notes to PEF Financial Statements.

http://phx.corporate-ir.net/SECCapsule/SECDocument.asp?fid=4726195&vfid=4711364... 10/12/2007

FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.
STATEMENTS of CHANGES in COMMON STOCK EQUITY

(in millions except shares outstanding)	Common Stock Outstanding Shares	Common Stock Outstanding Amount	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Common Stock Equity
Balance, December 31, 2003	100	$ 1,081	$ (4)	$ 1,062	$ 2,139
Net income		-	-	335	335
Other comprehensive income		-	4	-	4
Comprehensive income					339
Preferred stock dividends at stated rates		-	-	(2)	(2)
Dividends paid to parent		-	-	(155)	(155)
Balance, December 31, 2004	100	1,081	-	1,240	2,321
Net income		-	-	260	260
Comprehensive income					260
Stock-based compensation expense		1	-	-	1
Noncash contribution from parent		15	-	-	15
Preferred stock dividends at stated rates		-	-	(2)	(2)
Balance, December 31, 2005	**100**	**1,097**	**-**	**1,498**	**2,595**
Net income		**-**	**-**	**328**	**328**
Other comprehensive loss		**-**	**(1)**	**-**	**(1)**
Comprehensive income					**327**
Stock-based compensation expense		**3**	**-**	**-**	**3**
Preferred stock dividends at stated rates		**-**	**-**	**(2)**	**(2)**
Dividends paid to parent		**-**	**-**	**(234)**	**(234)**
Tax benefit dividend		**-**	**-**	**(2)**	**(2)**
Balance, December 31, 2006	**100**	**$ 1,100**	**$ (1)**	**$ 1,588**	**$ 2,687**

FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.
STATEMENTS of COMPREHENSIVE INCOME

(in millions) Years ended December 31	**2006**	2005	2004
Net income	**$ 328**	$ 260	$ 335
Other comprehensive (loss) income			
Changes in net unrealized losses on cash flow hedges (net of tax benefit of $1)	**(1)**	-	-
Reclassification of minimum pension liability to regulatory assets (net of tax expense of $2)	**-**	-	4
Other comprehensive (loss) income	**(1)**	-	4
Comprehensive income	**$ 327**	$ 260	$ 339

See Notes to PEF Financial Statements.

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Progress Energy, Inc.

The Parent is a holding company headquartered in Raleigh, N.C. As such, we are subject to regulation by the Federal Energy Regulatory Commission (FERC) under the regulatory provisions of the Public Utility Holding Company Act of 2005 (PUHCA 2005). Prior to February 8, 2006, the Parent was subject to regulation by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935 (PUHCA 1935), as amended.

Our reportable segments are: PEC, PEF and Coal and Synthetic Fuels. Our PEC and PEF segments are primarily engaged in the generation, transmission, distribution and sale of electricity. Our Coal and Synthetic Fuels segment is primarily engaged in the production and sale of coal-based solid synthetic fuels as defined under the Internal Revenue Code (the Code), the operation of synthetic fuels facilities for third parties, and coal terminal services. Our Corporate and Other segment (Corporate and Other) is comprised of the activities of the Parent and Progress Energy Service Company (PESC) as well as nonregulated businesses, which do not separately meet the disclosure requirements as a business segment.

See Note 19 for further information about our segments.

PEC

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

PEF

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

B. Basis of Presentation

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

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

Unconsolidated investments in companies over which we do not have control, but have the ability to exercise influence over operating and financial policies (generally 20 percent to 50 percent ownership), are accounted for under the equity method of accounting. These investments are primarily in limited liability corporations and limited liability partnerships, and the earnings from these investments are recorded on a pre-tax basis (See Note 20). Other investments are stated principally at cost. These equity and cost method investments are included in miscellaneous other property and investments in the Consolidated Balance Sheets. See Note 13 for more information about our investments.

Diversified business revenues and expenses represent the operating activities of our consolidated nonregulated operations, primarily the Coal and Synthetic Fuels segment. These operations are separate and distinct businesses from the Utilities.

Significant intercompany balances and transactions have been eliminated in consolidation except as permitted by Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), which provides that profits on intercompany sales to regulated affiliates are not eliminated if the sales price is reasonable and the future recovery of the sales price through the ratemaking process is probable.

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

Certain amounts for 2005 and 2004 have been reclassified to conform to the 2006 presentation.

C. Consolidation of Variable Interest Entities

We consolidate all voting interest entities in which we own a majority voting interest and all variable interest entities for which we are the primary beneficiary in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R, "Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51" (FIN 46R).

Progress Energy

In addition to the variable interests listed below for PEC and PEF, we have interests through other subsidiaries in several variable interest entities for which we are not the primary beneficiary. These arrangements include investments in five limited liability partnerships and limited liability corporations. At December 31, 2006, the aggregate additional maximum loss exposure that we could be required to record in our income statement as a result of these arrangements was $7 million, which represents our net remaining investment in the entities. The creditors of these variable interest entities do not have recourse to our general credit in excess of the aggregate maximum loss exposure.

PEC

PEC is the primary beneficiary of, and consolidates, two limited partnerships that qualify for federal affordable housing and historic tax credits under Section 42 of the Code. At December 31, 2006, the total assets of the two entities were $37 million, the majority of which are collateral for the entities' obligations and are included in miscellaneous other property and investments in the Consolidated Balance Sheet.

PEC has an interest in and consolidates a limited partnership that invests in 17 low-income housing partnerships that qualify for federal and state tax credits. PEC has requested the necessary information to determine if the 17 partnerships

are variable interest entities or to identify the primary beneficiaries; all entities from which the necessary financial information was requested declined to provide the information to PEC and, accordingly, PEC has applied the information scope exception in FIN 46R, paragraph 4(g), to the 17 partnerships. PEC believes that if

it is determined to be the primary beneficiary of these entities, the effect of consolidating the entities would result in increases to total assets, long-term debt and other liabilities, but would have an insignificant or no impact on PEC's common stock equity, net earnings or cash flows.

PEC also has an interest in one power plant resulting from long-term power purchase contracts. Our only significant exposure to variability from these contracts results from fluctuations in the market price of fuel used by the entity's plants to produce the power purchased by PEC. We are able to recover these fuel costs under PEC's fuel clause. Total purchases from this counterparty were $45 million, $44 million and $42 million in 2006, 2005 and 2004, respectively. The generation capacity of the entity's power plant is approximately 835 megawatts (MW). PEC has requested the necessary information to determine if the power plant owner is a variable interest entity or to identify the primary beneficiary. The entity declined to provide us with the necessary financial information and PEC has applied the information scope exception in FIN 46R, paragraph 4(g), to the power plant. PEC believes that if it is determined to be the primary beneficiary of the entity, the effect of consolidating the entity would result in increases to total assets, long-term debt and other liabilities, but would have an insignificant or no impact on PEC's common stock equity, net earnings or cash flows. However, because PEC has not received any financial information from the counterparty, the impact cannot be determined at this time.

PEC also has interests in several other variable interest entities for which PEC is not the primary beneficiary. These arrangements include investments in 20 limited liability partnerships, limited liability corporations and venture capital funds and two building leases with special-purpose entities. At December 31, 2006, the aggregate maximum loss exposure that PEC could be required to record on its income statement as a result of these arrangements totals $21 million, which primarily represents its net remaining investment in these entities. The creditors of these variable interest entities do not have recourse to the general credit of PEC in excess of the aggregate maximum loss exposure.

PEF

PEF has interests in three variable interest entities for which PEF is not the primary beneficiary. These arrangements include investments in one venture capital fund, one building lease with a special-purpose entity and one operating lease with a special-purpose entity. At December 31, 2006, the aggregate maximum loss exposure that PEF could be required to record in its income statement as a result of these arrangements was $57 million. The majority of this exposure is related to a prepayment clause in the building lease and is not considered equity at risk. The creditors of these variable interest entities do not have recourse to the general credit of PEF in excess of the aggregate maximum loss exposure.

D. Significant Accounting Policies

USE OF ESTIMATES AND ASSUMPTIONS

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

REVENUE RECOGNITION

We recognize revenue when it is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; our price to the buyer is fixed or determinable; and collectability is reasonably assured. We recognize electric utility revenues as service is rendered to customers. Operating revenues include unbilled electric utility revenues earned when service has been delivered but not billed by the end of the accounting period. Diversified business revenues are generally recognized at the time products are

shipped or as services are rendered. Leasing activities are accounted for in accordance with SFAS No. 13, "Accounting for Leases." Revenues related to design and construction of wireless infrastructure are recognized upon completion of services for each completed phase of design and construction. Revenues from the sale of oil and gas production are recognized when title passes, net of royalties. Customer prepayments are recorded as deferred revenue and recognized as revenues as the services are provided.

FUEL COST DEFERRALS

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

EXCISE TAXES

The Utilities collect from customers certain excise taxes levied by the state or local government upon the customers. The Utilities account for sales and use tax on a net basis and gross receipts tax, franchise taxes and other excise taxes on a gross basis. The amount of gross receipts tax, franchise taxes and other excise taxes included in electric operating revenues and taxes other than on income in the statements of income for the years ended December 31 were as follows:

(in millions)	**2006**	2005	2004
Progress Energy	**$ 293**	$ 258	$ 240
PEC	**94**	91	89
PEF	**199**	167	151

STOCK-BASED COMPENSATION

Prior to July 2005, we accounted for stock-based compensation under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for our stock-based compensation costs. In addition, we followed the disclosure requirements contained in SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." Effective July 1, 2005, we adopted the fair value recognition provisions of SFAS No. 123R, "Share-Based Payment" (SFAS No. 123R), for stock-based compensation utilizing the modified prospective transition method (See Note 10B).

RELATED PARTY TRANSACTIONS

Our subsidiaries provide and receive services, at cost, to and from the Parent and its subsidiaries, in accordance with agreements approved by the SEC pursuant to Section 13(b) of PUHCA 1935. The costs of the services are billed on a direct-charge basis, whenever possible, and on allocation factors for general costs that cannot be directly attributed. In the subsidiaries' financial statements, billings from affiliates are capitalized or expensed depending on the nature of the services rendered. The repeal of PUHCA 1935 and subsequent regulation by the FERC did not change our current intercompany services.

UTILITY PLANT

Utility plant in service is stated at historical cost less accumulated depreciation. We capitalize all construction-related direct labor and material costs of units of property as well as indirect construction costs. Certain costs that would otherwise not be capitalized under GAAP are capitalized in accordance with regulatory treatment. The cost of renewals and betterments is also capitalized. Maintenance and repairs of property (including planned major maintenance activities), and replacements and renewals of items determined to be less than units of property, are charged to maintenance expense as incurred, with the exception of nuclear outages at PEF. Pursuant to a regulatory order, PEF accrues for nuclear outage costs in advance of scheduled outages, which occur every two years. The cost of units of property replaced or retired, less salvage, is charged to accumulated depreciation. Removal or disposal costs that do not represent asset retirement obligations under SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143), are charged to a

regulatory liability.

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

AFUDC is charged to the cost of the plant. The equity funds portion of AFUDC is credited to other income and the borrowed funds portion is credited to interest charges.

ASSET RETIREMENT OBLIGATIONS

We account for asset retirement obligations (ARO), which represent legal obligations associated with the retirement of certain tangible long-lived assets, in accordance with SFAS No. 143. The present values of retirement costs for which we have a legal obligation are recorded as liabilities with an equivalent amount added to the asset cost and depreciated over an appropriate period. The liability is then accreted over time by applying an interest method of allocation to the liability. In addition, effective December 31, 2005, we also adopted FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), which clarified certain requirements of SFAS No. 143.

The adoption of SFAS No. 143 and FIN 47 had no impact on the income of the Utilities as the effects were offset by the establishment of regulatory assets and regulatory liabilities pursuant to SFAS No. 71 (See Note 7A) and in accordance with orders issued by the NCUC, the SCPSC and the FPSC.

DEPRECIATION AND AMORTIZATION - UTILITY PLANT

For financial reporting purposes, substantially all depreciation of utility plant other than nuclear fuel is computed on the straight-line method based on the estimated remaining useful life of the property, adjusted for estimated salvage (See Note 5A). Pursuant to their rate-setting authority, the NCUC, SCPSC and FPSC can also grant approval to accelerate or reduce depreciation and amortization of utility assets (See Note 5).

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

The North Carolina Clean Smokestacks Act (Clean Smokestacks Act) was enacted in 2002. The Clean Smokestacks Act freezes North Carolina electric utility base rates for a five-year period ending in December 2007, unless there are extraordinary events beyond the control of the utilities or unless the utilities persistently earn a return substantially in excess of the rate of return established and found reasonable by the NCUC in the respective utility's last general rate case. During the rate freeze period, the legislation provides for the amortization and recovery of 70 percent of the original estimated compliance costs while providing significant flexibility in the amount of annual amortization recorded from none up to $174 million per year.

CASH AND CASH EQUIVALENTS

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

INVENTORY

We account for inventory, including emission allowances, using the average cost method. Inventories are valued at the lower of average cost or market.

REGULATORY ASSETS AND LIABILITIES

The Utilities' operations are subject to SFAS No. 71, which allows a regulated company to record costs that have been or

are expected to be allowed in the ratemaking process in a period different from the period in which the costs would be charged to expense by a nonregulated enterprise. Accordingly, the Utilities record assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for nonregulated entities. These regulatory assets and liabilities represent expenses deferred for future recovery from customers or obligations to be refunded to customers and are primarily classified in the Consolidated Balance Sheets as regulatory assets and

regulatory liabilities (See Note 7A). The regulatory assets and liabilities are amortized consistent with the treatment of the related cost in the ratemaking process.

DIVERSIFIED BUSINESS PROPERTY

Diversified business property is stated at cost less accumulated depreciation. If an impairment is recognized on an asset, the fair value becomes its new cost basis. The costs of renewals and betterments are capitalized. The costs of repairs and maintenance are charged to expense as incurred. For properties other than oil and gas properties, depreciation is computed on a straight-line basis using the estimated useful lives disclosed in Note 5B. Depletion of mineral rights is provided on the units-of-production method based upon the estimates of recoverable amounts of clean mineral.

We use the full-cost method to account for our oil and gas properties. Under the full-cost method, substantially all productive and nonproductive costs incurred in connection with the acquisition, exploration and development of oil and gas reserves are capitalized. These capitalized costs include the costs of all unproved properties and internal costs directly related to acquisition and exploration activities. The amortization base also includes the estimated future cost to develop proved reserves. Except for costs of unproved properties and major development projects in progress, all costs are amortized using the units-of-production method on a country-by-country basis over the life of our proved reserves. Accordingly, all property acquisition, exploration, and development costs of proved oil and gas properties, including the costs of abandoned properties, dry holes, geophysical costs and annual lease rentals, are capitalized as incurred, including internal costs directly attributable to such activities. Related interest expense incurred during property development activities is capitalized as a cost of such activity. Net capitalized costs of unproved property are reclassified as proved property and well costs when related proved reserves are found. Costs to operate and maintain wells and field equipment are expensed as incurred. In accordance with Rule 4-10 of Regulation S-X, sales or other dispositions of oil and gas properties are accounted for as adjustments to capitalized costs, with no gain or loss recorded unless certain significance tests are met. During 2006, we sold our natural gas drilling and production business, and we met the significance tests necessary to recognize a gain on the transaction (See Note 3B).

GOODWILL AND INTANGIBLE ASSETS

Goodwill is subject to at least an annual assessment for impairment by applying a two-step, fair value-based test. This assessment could result in periodic impairment charges. Intangible assets are being amortized based on the economic benefit of their respective lives.

UNAMORTIZED DEBT PREMIUMS, DISCOUNTS AND EXPENSES

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

INCOME TAXES

We and our affiliates file a consolidated federal income tax return. The consolidated income tax of Progress Energy is allocated to PEC and PEF in accordance with the Intercompany Income Tax Allocation Agreement (Tax Agreement). The Tax Agreement provides an allocation that recognizes positive and negative corporate taxable income. The Tax Agreement provides for an equitable method of apportioning the carryover of uncompensated tax benefits, which primarily relate to deferred synthetic fuels tax credits. Since 2002, Progress Energy tax benefits not related to acquisition interest expense have been allocated to profitable subsidiaries in accordance with a PUHCA 1935 order. Except for the allocation of these Progress Energy tax benefits, income taxes are provided as if PEC and PEF filed separate returns. Due

to the repeal of PUHCA 1935, effective February 8, 2006, we stopped allocating these tax benefits.

Deferred income taxes have been provided for temporary differences. These occur when there are differences between the book and tax carrying amounts of assets and liabilities. Investment tax credits related to regulated

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operations have been deferred and are being amortized over the estimated service life of the related properties. Credits for the production and sale of synthetic fuels are deferred credits to the extent they cannot be or have not been utilized in the annual consolidated federal income tax returns, and are included in income tax expense (benefit) in the Consolidated Statements of Income. Interest expense on tax deficiencies is included in net interest charges, and tax penalties are included in other, net on the Consolidated Statements of Income.

DERIVATIVES

We account for derivative instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - An Amendment of FASB Statement No. 133," and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as assets or liabilities in the balance sheet and measure those instruments at fair value, unless the derivatives meet the SFAS No. 133 criteria for normal purchases or normal sales and are designated as such. We generally designate derivative instruments as normal purchases or normal sales whenever the SFAS No. 133 criteria are met. If normal purchase or normal sale criteria are not met, we will generally designate the derivative instruments as cash flow or fair value hedges if the related SFAS No. 133 hedge criteria are met. Certain economic derivative instruments receive regulatory accounting treatment, under which unrealized gains and losses are recorded as regulatory liabilities and assets, respectively, until the contracts are settled. See Note 17 for additional information regarding risk management activities and derivative transactions.

LOSS CONTINGENCIES AND ENVIRONMENTAL LIABILITIES

We accrue for loss contingencies, including uncertain tax benefits, in accordance with SFAS No. 5, "Accounting for Contingencies" (SFAS No. 5). Under SFAS No. 5, contingent losses such as unfavorable results of litigation are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Tax reserves are recorded for uncertain tax benefits when it is probable that the tax position will be disallowed and the amount of the disallowance can be reasonably estimated. Unless otherwise required by GAAP, we do not accrue legal fees when a contingent loss is initially recorded, but rather when the legal services are actually provided.

As discussed in Note 21, we accrue environmental remediation liabilities when the criteria for SFAS No. 5 have been met. Environmental expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as additional information develops or circumstances change. Certain environmental expenses receive regulatory accounting treatment, under which the expenses are recorded as regulatory assets. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recognized when their receipt is deemed probable. Environmental expenditures that have future economic benefits are capitalized in accordance with our asset capitalization policy.

IMPAIRMENT OF LONG-LIVED ASSETS AND INVESTMENTS

As discussed in Note 9, we account for impairment of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). We review the recoverability of long-lived tangible and intangible assets whenever indicators exist. Examples of these indicators include current period losses, combined with a history of losses or a projection of continuing losses, or a significant decrease in the market price of a long-lived asset group. If an indicator exists for assets to be held and used, then the asset group is tested for recoverability by comparing the carrying value to the sum of undiscounted expected future cash flows directly attributable to the asset

group. If the asset group is not recoverable through undiscounted cash flows or the asset group is to be disposed of, then an impairment loss is recognized for the difference between the carrying value and the fair value of the asset group.

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

Under the full-cost method of accounting for oil and gas properties, total capitalized costs are limited to a ceiling based on the present value of discounted (at 10%) future net revenues using current prices, plus the lower of cost or fair market value of unproved properties. The ceiling test takes into consideration the prices of qualifying cash flow hedges as of the balance sheet date. If the ceiling (discounted revenues) is not equal to or greater than total capitalized costs, we are required to write-down capitalized costs to this level. We performed this ceiling test calculation every quarter prior to the sale of our natural gas drilling and production business (See Note 3B). No write-downs were required in 2006, 2005 or 2004.

SUBSIDIARY STOCK TRANSACTIONS

Gains and losses realized as a result of common stock sales by our subsidiaries are recorded in the Consolidated Statements of Income, except for any transactions that must be credited directly to equity in accordance with the provisions of Staff Accounting Bulletin No. 51, "Accounting for Sales of Stock by a Subsidiary."

2. NEW ACCOUNTING STANDARDS

SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)"

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS No. 158). SFAS No. 158 requires an entity to recognize in its statement of financial condition the funded status of its pension and other postretirement benefit plans, measured as the difference between the fair value of the plan assets and the benefit obligation as of the end of the employer's fiscal year (with limited exceptions). SFAS No. 158 also requires an entity to recognize changes in the funded status of a pension or other postretirement benefit plan within accumulated other comprehensive income (AOCI), net of tax, to the extent such changes are not recognized in earnings as components of net periodic cost. SFAS No. 158 does not permit retrospective application of its provisions. The recognition and disclosure provisions of SFAS No. 158 were implemented by us as of December 31, 2006. The implementation of SFAS No. 158 had no impact on reported net income.

The following is a summary of the incremental effect of applying the provisions of SFAS No. 158 on individual line items of the Balance Sheets of the Progress Registrants at December 31, 2006.

Progress Energy

(in millions)	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Regulatory assets	$ 892	$ 339	$ 1,231
Intangibles, net	39	(39)	-
Total assets	25,401	300	25,701

Liabilities of discontinued operations	185	4	189
Income taxes accrued	287	(3)	284
Other current liabilities	746	9	755
Noncurrent income tax liabilities	255	51	306
Accrued pension and other benefits	791	166	957
Accumulated other comprehensive loss	(122)	73	(49)
Total capitalization and liabilities	25,401	300	25,701

PEC

(in millions)	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Regulatory assets	$ 534	$ 243	$ 777
Other assets and deferred debits	180	(25)	155
Total assets	11,802	218	12,020
Income taxes accrued	69	(1)	68
Other current liabilities	152	2	154
Noncurrent income tax liabilities	855	54	909
Accrued pension and other benefits	501	80	581
Accumulated other comprehensive loss	(84)	83	(1)
Total capitalization and liabilities	11,802	$ 218	12,020

PEF

(in millions)	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Regulatory assets	$ 330	$ 124	$ 454
Prepaid pension cost	221	(47)	174
Total assets	8,516	77	8,593
Other current liabilities	87	2	89
Noncurrent income tax liabilities	465	1	466
Accrued pension and other benefits	258	74	332
Total capitalization and liabilities	8,516	$ 77	8,593

Amounts for PEC and PEF that would otherwise be recorded in AOCI pursuant to SFAS No. 158 are recorded as regulatory assets consistent with the recovery of the related costs through the ratemaking process.

FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes"

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). Enterprises must adopt FIN 48 through a cumulative effect adjustment to retained earnings at the beginning of their first fiscal year that begins after December 15, 2006, which for us was January 1, 2007. FIN 48 applies to all tax positions within the scope of SFAS No. 109, "Accounting for Income Taxes," and includes tax positions taken and tax positions expected to be taken. A two-step process is required for the application of FIN 48: recognition of the tax benefit based on a "more likely than not" threshold and measurement of the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. FIN 48 also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. We are still in the process of assessing the impact of FIN 48 on our various income tax positions. The cumulative effect adjustment to retained earnings upon adoption of FIN 48 could have a material impact on our financial statements.

SFAS No. 157, "Fair Value Measurements"

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 redefines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." SFAS No. 157 establishes a fair value hierarchy that categorizes and prioritizes the inputs that should be used to estimate fair value. We will implement SFAS No. 157 as of January 1, 2008, applying the provisions retrospectively for derivative accounting and prospectively for all other valuations. We are currently evaluating the impact adoption may have on our financial condition, results of operations and cash flows.

Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements"

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). In practice, some companies currently use the "rollover" method, which focuses on the impact of a misstatement on the income statement. Other companies use the "iron curtain" method, which focuses on the impact of a misstatement on the balance sheet. SAB 108 requires companies to use a "dual approach" in quantifying financial statement misstatements. If an error is determined to be material under either approach, the financial statements must be adjusted. SAB 108 also provides transition guidance for correcting errors existing in prior years.

The SEC permits two methods for the initial application of SAB 108. A company can elect to restate prior financial statements as if the "dual approach" had always been used, or it can record a cumulative effect, with any correcting adjustments recorded to the carrying values of assets and liabilities as of the beginning of the implementation year with the offsetting adjustment recorded to the opening balance of retained earnings. Companies using the "cumulative effect" transition method must disclose the nature and amount of each individual error, including when and how each error being corrected arose. They must also disclose the fact that the errors had previously been considered immaterial. Companies do not have to restate prior period financial statements at initial application so long as management properly applied its previous approach.

SAB 108 is effective for us at December 31, 2006. The implementation of SAB 108 did not have a material effect on our financial position or results of operations, and we did not record an adjustment to beginning retained earnings as permitted by SAB 108.

3. DIVESTITURES

A. CCO - Georgia Operations

On December 13, 2006, our board of directors approved a plan to pursue the disposition of substantially all of Progress Ventures, Inc.'s (PVI) Competitive Commercial Operations (CCO) physical and commercial assets, which include approximately 1,900 MW of power generation facilities in Georgia, as well as forward gas and power contracts, gas transportation, storage and structured power and other contracts, including the full requirements contracts with 16 Georgia Electric Membership Cooperatives (the Georgia Contracts). The operations of CCO were previously included in the former Progress Ventures segment. We expect to complete the disposition plan in 2007. As a result of the disposition plan, we recorded an after-tax estimated loss of $226 million in December 2006. In 2007, we anticipate recording additional material charges in discontinued operations related to the disposition plan. These additional charges relate primarily to costs to be incurred to exit the Georgia Contracts under SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." These costs could exceed $200 million after-tax.

The accompanying consolidated financial statements have been restated for all periods presented to reflect the operations of CCO as discontinued operations. Interest expense has been allocated to discontinued operations based on their respective net assets, assuming a uniform debt-to-equity ratio across our operations. Interest expense allocated for the years ended December 31, 2006, 2005 and 2004 was $36 million, $39 million and $40 million, respectively. We ceased recording depreciation upon classification of the assets as discontinued operations in December 2006. After-tax depreciation expense during the years ended December 31, 2006, 2005 and 2004 was $14 million, $14 million and $15 million, respectively. Results of discontinued operations for the years ended December 31 were as follows:

(in millions)		**2006**		2005		2004
Revenues	**$**	**754**	$	627	$	168
Loss before income taxes	**$**	**(92)**	$	(93)	$	(39)
Income tax benefit		**35**		39		16
Net loss from discontinued operations		**(57)**		(54)		(23)
Estimated loss on disposal of discontinued operations, including income tax benefit of $123		**(226)**		-		-
Loss from discontinued operations	**$**	**(283)**	$	(54)	$	(23)

B. Natural Gas Drilling and Production

On October 2, 2006, we sold our natural gas drilling and production business (Gas) to EXCO Resources, Inc. for approximately $1.1 billion in net proceeds. Gas included Winchester Production Company, Ltd. (Winchester Production), Westchester Gas Company, Texas Gas Gathering and Talco Midstream Assets Ltd.; all were subsidiaries of Progress Fuels Corporation (Progress Fuels). Proceeds from the sale have been used primarily to reduce holding company debt and for other corporate purposes.

Based on the net proceeds associated with the sale, we recorded an after-tax net gain on disposal of $300 million during the year ended December 31, 2006.

In December 2004, we sold certain gas-producing properties and related assets owned by Winchester Production, which were previously included in the former Progress Ventures segment. Net proceeds of approximately $251 million were used to reduce debt. Because the sale significantly altered the ongoing relationship between capitalized costs and remaining proved reserves, under the full-cost method of accounting, the pre-tax gain of $56 million was recognized in earnings rather than as a reduction of the basis of our remaining oil and gas properties. Upon the sale of Gas, the gain was reclassed from continuing operations to earnings from discontinued operations.

The accompanying consolidated financial statements have been restated for all periods presented to reflect all the operations of Gas as discontinued operations. Interest expense has been allocated to discontinued operations based on their respective net assets, assuming a uniform debt-to-equity ratio across our operations. Interest expense allocated for the years ended December 31, 2006, 2005 and 2004 was $13 million, $13 million and $14 million, respectively. We ceased recording depreciation upon classification of the assets as discontinued operations in July 2006. After-tax depreciation expense during the years ended December 31, 2006, 2005 and 2004 was $16 million, $26 million and $27 million, respectively. Results of discontinued operations for the years ended December 31 were as follows:

(in millions)		**2006**		2005		2004
Revenues	**$**	**192**	$	159	$	162
Earnings before income taxes	**$**	**135**	$	73	$	127
Income tax expense		**(53)**		(25)		(51)
Net earnings from discontinued operations		**82**		48		76

Gain on disposal of discontinued operations, including income tax expense of $188	**300**	-	-
Earnings from discontinued operations	**$ 382**	$ 48	$ 76

C. CCO - DeSoto and Rowan Generation Facilities

On May 2, 2006, our board of directors approved a plan to divest of two subsidiaries of PVI, DeSoto County Generating Co., LLC (DeSoto) and Rowan County Power, LLC (Rowan). DeSoto owns a 320 MW dual-fuel combustion turbine electric generation facility in DeSoto County, Fla., and Rowan owns a 925 MW dual-fuel combined cycle and combustion turbine electric generation facility in Rowan County, N.C. On May 8, 2006, we entered into definitive agreements to sell DeSoto and Rowan, including certain existing power supply contracts, to Southern Power Company, a subsidiary of Southern Company, for gross purchase prices of approximately $80 million and $325 million, respectively. We used the proceeds from the sales to reduce debt and for other corporate purposes.

The sale of DeSoto closed in the second quarter of 2006 and the sale of Rowan closed during the third quarter of 2006. Based on the gross proceeds associated with the sales, we recorded an after-tax loss on disposal of $67 million during the year ended December 31, 2006.

The accompanying consolidated financial statements have been restated for all periods presented to reflect the operations of DeSoto and Rowan as discontinued operations. Interest expense has been allocated to discontinued operations based on their respective net assets, assuming a uniform debt-to-equity ratio across our operations. Interest expense allocated for the years ended December 31, 2006, 2005 and 2004 was $6 million, $13 million and $13 million, respectively. We ceased recording depreciation upon classification of the assets as discontinued operations in May 2006. After-tax depreciation expense during the years ended December 31, 2006, 2005 and 2004 was $3 million, $8 million and $8 million, respectively. Results of discontinued operations for the years ended December 31 were as follows:

(in millions)		**2006**		2005		2004
Revenues	**$**	**64**	$	67	$	72
Earnings before income taxes	**$**	**15**	$	5	$	13
Income tax expense		**(5)**		(2)		(5)
Net earnings from discontinued operations		**10**		3		8
Loss on disposal of discontinued operations, including income tax benefit of $37		**(67)**		-		-
(Loss) earnings from discontinued operations	**$**	**(57)**	$	3	$	8

D. Progress Telecom, LLC

On March 20, 2006, we completed the sale of Progress Telecom, LLC (PT LLC) to Level 3 Communications, Inc. (Level 3). We received gross proceeds comprised of cash of $69 million and approximately 20 million shares of Level 3 common stock valued at an estimated $66 million on the date of the sale. Our net proceeds from the sale of approximately $70 million, after consideration of minority interest, were used to reduce debt. Prior to the sale, we had a 51 percent interest in PT LLC. See Note 20 for a discussion of the subsequent sale of the Level 3 stock.

Based on the net proceeds associated with the sale and after consideration of minority interest, we recorded an after-tax net gain on disposal of $28 million during the year ended December 31, 2006.

The accompanying consolidated financial statements have been restated for all periods presented to reflect the operations of PT LLC as discontinued operations. Interest expense has been allocated to discontinued operations based on their respective net assets, assuming a uniform debt-to-equity ratio across our operations. Interest expense allocated was $1 million for each of the years ended December 31, 2005 and 2004. We ceased recording depreciation upon classification of the assets as discontinued operations in January 2006. After-tax depreciation expense during the years ended

December 31, 2006, 2005 and 2004 was $1 million, $8 million and $6 million, respectively. Results of discontinued operations for the years ended December 31 were as follows:

(in millions)		2006		2005		2004
Revenues	$	18	$	76	$	69
Earnings (loss) before income taxes and minority interest	$	7	$	11	$	(9)
Income tax (expense) benefit		(4)		(3)		2
Minority interest		(5)		(4)		-
Net (loss) earnings from discontinued operations		(2)		4		(7)
Gain on disposal of discontinued operations, including income tax expense of $8 and minority interest of $35		28		-		-
Earnings (loss) from discontinued operations	$	26	$	4	$	(7)

In connection with the sale, PEC and PEF provided indemnification against costs associated with certain asset performances to Level 3. See general discussion of guarantees at Note 22C. The ultimate resolution of these matters could result in adjustments to the gain on sale in future periods.

E. Dixie Fuels and Other Fuels Business

On March 1, 2006, we sold our 65 percent interest in Dixie Fuels Limited (Dixie Fuels) to Kirby Corporation for $16 million in cash. Dixie Fuels operates a fleet of four ocean-going dry-bulk barge and tugboat units operating under long-term contracts with PEF. Dixie Fuels primarily transports coal from the lower Mississippi River to Progress Energy's Crystal River facility. We recorded an after-tax gain of $2 million on the sale of Dixie Fuels. The other fuels business is Progress Materials, Inc. and is expected to be sold in 2007.

The accompanying consolidated financial statements have been restated for all periods presented to reflect Dixie Fuels and the other fuels business as discontinued operations. Interest expense has been allocated to discontinued operations based on their respective net assets, assuming a uniform debt-to-equity ratio across our operations. Interest expense allocated was $1 million for each of the years ended December 31, 2006, 2005 and 2004. We ceased recording depreciation upon classification of the assets as discontinued operations. After-tax depreciation expense during the years ended December 31, 2006, 2005 and 2004 was $1 million, $2 million and $3 million, respectively. Results of discontinued operations for the years ended December 31 were as follows:

(in millions)		2006		2005		2004
Revenues	$	20	$	32	$	25
Earnings before income taxes	$	11	$	8	$	3
Income tax expense		(4)		(3)		(1)
Net earnings from discontinued operations		7		5		2
Gain on disposal of discontinued operations, including income tax expense of $1		2		-		-
Earnings from discontinued operations	$	9	$	5	$	2

F. Coal Mining Businesses

On November 14, 2005, our board of directors approved a plan to divest of five subsidiaries of Progress Fuels engaged in the coal mining business. On May 1, 2006, we sold certain net assets of three of our coal mining businesses to Alpha Natural Resources, LLC for gross proceeds of $23 million plus a $4 million working capital adjustment. As a result,

during the year ended December 31, 2006, we recorded an after-tax loss of $10 million on the sale of these assets. The remaining coal mining operations are expected to be sold in 2007.

The accompanying consolidated financial statements have been restated for all periods presented to reflect the coal mining operations as discontinued operations. Interest expense has been allocated to discontinued operations based on the net assets of the coal mines, assuming a uniform debt-to-equity ratio across our operations. Interest expense allocated for the years ended December 31, 2006, 2005 and 2004 was $1 million, $3 million and $3 million, respectively. We ceased recording depreciation expense upon classification of the coal mining operations as discontinued operations in November 2005. After-tax depreciation expense during the years ended December 31,

2005 and 2004 was $10 million and $9 million, respectively. Results of discontinued operations for the years ended December 31 were as follows:

(in millions)		**2006**	2005	2004
Revenues	**$**	**84** $	184 $	160
Loss before income taxes	**$**	**(11)** $	(16) $	(17)
Income tax benefit		**7**	5	12
Net loss from discontinued operations		**(4)**	(11)	(5)
Loss on disposal of discontinued operations, including income tax benefit of $16		**(10)**	-	-
Loss from discontinued operations	**$**	**(14)** $	(11) $	(5)

G. Progress Rail

On March 24, 2005, we completed the sale of Progress Rail Services Corporation (Progress Rail) to One Equity Partners LLC, a private equity firm unit of J.P. Morgan Chase & Co. Cash proceeds from the sale were approximately $429 million, consisting of $405 million base proceeds plus a working capital adjustment. Proceeds from the sale were used to reduce debt.

Based on the gross proceeds associated with the sale of $429 million, we recorded an estimated after-tax loss on disposal of $25 million during the year ended December 31, 2005. During the year ended December 31, 2006, we recorded an additional after-tax loss on disposal of $6 million in connection with guarantees and indemnifications provided by Progress Fuels and Progress Energy for certain legal, tax and environmental matters to One Equity Partners, LLC. The ultimate resolution of these matters could result in adjustments to the loss on sale in future periods. See general discussion of guarantees at Note 22C.

The accompanying consolidated financial statements have been restated for all periods presented to reflect the operations of Progress Rail as discontinued operations. Interest expense has been allocated to discontinued operations based on the net assets of Progress Rail, assuming a uniform debt-to-equity ratio across our operations. Interest expense allocated for the years ended December 31, 2005 and 2004 was $4 million and $16 million, respectively. We ceased recording depreciation upon classification of Progress Rail as discontinued operations in February 2005. After-tax depreciation expense during the years ended December 31, 2005 and 2004 was $3 million and $10 million, respectively. Results of discontinued operations for the years ended December 31 were as follows:

(in millions)		**2006**	2005	2004
Revenues	**$**	**-** $	358 $	1,127
Earnings before income taxes	**$**	**-** $	8 $	50
Income tax expense		**-**	(3)	(21)
Net earnings from discontinued operations		**-**	5	29
Loss on disposal of discontinued operations, including income tax (expense) benefit of $(6) and $15, respectively		**(6)**	(25)	-
(Loss) earnings from discontinued operations	**$**	**(6)** $	(20) $	29

In February 2004, we sold the majority of the assets of Railcar Ltd., a subsidiary of Progress Rail, to The Andersons, Inc. for proceeds of approximately $82 million before transaction costs and taxes of approximately $13 million. In 2002, we had recognized pre-tax impairment of $59 million to write-down the assets to our estimated fair value less costs to sell. In July 2004, we sold the remaining assets, which had been classified as held for sale, to a third party for net proceeds of $6 million.

H. Net Assets of Discontinued Operations

Included in net assets of discontinued operations are the assets and liabilities of CCO, the remaining coal mining operations and other fuels business at December 31, 2006, and the assets and liabilities of CCO, Gas, DeSoto and Rowan, PT LLC, Dixie Fuels, the five coal mining businesses and other fuels business at December 31, 2005. The

major balance sheet classes included in assets and liabilities of discontinued operations in the Consolidated Balance Sheets were as follows:

(in millions)		December 31, 2006		December 31, 2005
Accounts receivable	**$**	**45**	$	115
Inventory		**24**		50
Other current assets		**28**		47
Total property, plant and equipment, net		**573**		1,899
Total other assets		**217**		455
Assets of discontinued operations	**$**	**887**	$	2,566
Accounts payable	**$**	**43**	$	87
Accrued expenses		**122**		233
Long-term liabilities		**24**		222
Liabilities of discontinued operations	**$**	**189**	$	542

I. Winter Park Distribution Assets

As discussed in Note 7C, PEF sold certain electric distribution assets to Winter Park, Fla. (Winter Park), on June 1, 2005.

J. Synthetic Fuels Partnership Interests

In two June 2004 transactions, Progress Fuels sold a combined 49.8 percent partnership interest in Colona Synfuel Limited Partnership, LLLP (Colona), one of its synthetic fuels facilities. Substantially all proceeds from the sales will be received over time, which is typical of such sales in the industry. Gains from the sales will be recognized on a cost-recovery basis. The book value of the interests sold totaled approximately $5 million. We recognized gains on these transactions of $4 million, $30 million and $8 million in the years ended December 31, 2006, 2005 and 2004, respectively. In the event that the synthetic fuels tax credits from the Colona facility are reduced, including an increase in the price of oil that could limit or eliminate synthetic fuels tax credits, the amount of proceeds realized from the sale could be significantly impacted.

K. North Carolina Natural Gas Corporation

On September 30, 2003, we sold North Carolina Natural Gas Corporation (NCNG) and our equity investment in Eastern North Carolina Natural Gas Company to Piedmont Natural Gas Company, Inc. During 2004, we recorded an additional tax gain of approximately $6 million due to final tax adjustments related to the divestiture of NCNG.

4. ACQUISITIONS

In May 2005, Winchester Production, an indirectly wholly owned subsidiary of Progress Fuels, acquired a 50 percent interest in approximately 11 natural gas producing wells and proven reserves of approximately 25 billion cubic feet equivalent (Bcf) from a privately owned company headquartered in Texas. In addition to the natural gas reserves, the transaction also included a 50 percent interest in the gas gathering systems related to these reserves. The total cash purchase price for the transaction was $46 million. The pro forma results of operations reflecting the acquisition would not be materially different than the reported results of operations for 2005 or 2004. In 2006, we sold our 50 percent interest in the wells, reserves and gas gathering system as part of our transaction with EXCO Resources, Inc. (See Note 3B).

5. PROPERTY, PLANT AND EQUIPMENT

A. Utility Plant

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

(in millions)	Depreciable Lives	Progress Energy 2006	Progress Energy 2005	PEC 2006	PEC 2005	PEF 2006	PEF 2005
Production plant	7-43	**$ 12,685**	$ 12,489	**$ 8,422**	$ 8,260	**$ 4,078**	$ 4,039
Transmission plant	17-75	**2,509**	2,353	**1,300**	1,264	**1,209**	1,089
Distribution plant	13-55	**7,351**	7,015	**3,992**	3,838	**3,359**	3,177
General plant and other	5-35	**1,198**	1,083	**642**	632	**556**	451
Utility plant in service		**$ 23,743**	$ 22,940	**$ 14,356**	$ 13,994	**$ 9,202**	$ 8,756

Generally, electric utility plant at PEC and PEF, other than nuclear fuel, is pledged as collateral for the first mortgage bonds of PEC and PEF, respectively (See Note 12C).

AFUDC represents the estimated costs of capital funds necessary to finance the construction of new regulated assets. As prescribed in the regulatory uniform systems of accounts, AFUDC is charged to the cost of the plant. The equity funds portion of AFUDC is credited to other income, and the borrowed funds portion is credited to interest charges. Regulatory authorities consider AFUDC an appropriate charge for inclusion in the rates charged to customers by the Utilities over the service life of the property. The composite AFUDC rate for PEC's electric utility plant was 8.7%, 5.6% and 7.2% in 2006, 2005 and 2004, respectively. The composite AFUDC rate for PEF's electric utility plant was 8.8% in 2006 and 7.8% in 2005 and 2004.

Our depreciation provisions on utility plant, as a percent of average depreciable property other than nuclear fuel, were 2.7%, 2.5% and 2.2% in 2006, 2005 and 2004, respectively. The depreciation provisions related to utility plant were $628 million, $556 million and $463 million in 2006, 2005 and 2004, respectively. In addition to utility plant depreciation provisions, depreciation and amortization expense also includes decommissioning cost provisions, ARO accretion, cost of removal provisions (See Note 5D), regulatory approved expenses (See Notes 7 and 21) and Clean Smokestacks Act amortization (See Note 21B).

Amortization of nuclear fuel costs, including disposal costs associated with obligations to the U.S. Department of Energy (DOE) and costs associated with obligations to the DOE for the decommissioning and decontamination of enrichment facilities, for the years ended December 31, 2006, 2005 and 2004 was $140 million, $136 million and $137 million, respectively. This amortization expense is included in fuel used for electric generation in the Consolidated Statements of Income.

PEC's depreciation provisions on utility plant, as a percent of average depreciable property other than nuclear fuel, were 2.8%, 2.7% and 2.1% in 2006, 2005 and 2004, respectively. The depreciation provisions related to utility plant were $389 million, $365 million and $275 million in 2006, 2005 and 2004, respectively. In addition to utility plant depreciation provisions, depreciation and amortization expense also includes decommissioning cost provisions, ARO accretion, cost of removal provisions (See Note 5D), regulatory approved expenses (See Note 7A) and Clean Smokestacks Act amortization (See Note 21B).

During 2004, PEC met the requirements of both the NCUC and the SCPSC for the implementation of two depreciation

studies that allowed the utility to reduce the rates used to calculate depreciation expense. The reduction was primarily due to extended lives at each of PEC's nuclear units. The reduced depreciation rates were effective January 1, 2004.

PEF's depreciation provisions on utility plant, as a percent of average depreciable property other than nuclear fuel, were 2.7% in 2006 and 2.3% in 2005 and 2004. The depreciation provisions related to utility plant were $239 million, $191 million and $188 million in 2006, 2005 and 2004, respectively. In addition to utility plant depreciation provisions, depreciation and amortization expense also includes decommissioning cost provisions, ARO accretion, cost of removal provisions (See Note 5D) and regulatory approved expenses (See Notes 7 and 21).

Amortization of nuclear fuel costs, including disposal costs associated with obligations to the DOE and costs associated with obligations to the DOE for the decommissioning and decontamination of enrichment facilities, for the years ended December 31, 2006, 2005 and 2004 was $109 million, $107 million and $105 million, respectively, for PEC and $31 million, $29 million and $32 million, respectively, for PEF. These costs were included in fuel used for electric generation in the Statements of Income.

B. Diversified Business Property

Progress Energy

The balances of diversified business property at December 31 are listed below, with a range of depreciable lives for each:

(in millions)		2006		2005
Equipment (3-25 years)	**$**	**66**	$	79
Land and mineral rights		**16**		17
Buildings and plants (5-40 years)		**54**		66
Rail equipment (3-20 years)		**-**		37
Computers, office equipment and software (3-10 years)		**2**		2
Construction work in progress		**1**		2
Accumulated depreciation		**(108)**		(125)
Diversified business property, net	**$**	**31**	$	78

Diversified business depreciation expense was $13 million for December 31, 2006, and $22 million for December 31, 2005 and 2004.

PEC

Net diversified business property was $7 million at both December 31, 2006 and 2005. These amounts consist primarily of buildings and equipment that are being depreciated over periods ranging from 10 to 40 years. Accumulated depreciation was $2 million at both December 31, 2006 and 2005. Diversified business depreciation expense was less than $1 million each in 2006, 2005 and 2004. Net diversified business property is included in miscellaneous other property and investments on the Consolidated Balance Sheets.

C. Joint Ownership of Generating Facilities

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

2006 (in millions) Subsidiary	**Facility**	**Company Ownership Interest**	**Plant Investment**	**Accumulated Depreciation**	**Construction Work in Progress**
PEC	**Mayo**	**83.83%**	**$ 517**	**$ 263**	**$ -**
PEC	**Harris**	**83.83%**	**3,159**	**1,489**	**18**
PEC	**Brunswick**	**81.67%**	**1,632**	**941**	**15**
PEC	**Roxboro Unit 4**	**87.06%**	**356**	**163**	**1**
PEF	**Crystal River Unit 3**	**91.78%**	**811**	**452**	**76**
PEF	**Intercession City Unit P11**	**66.67%**	**23**	**7**	**-**

2005 (in millions) Subsidiary	Facility	Company Ownership Interest	Plant Investment	Accumulated Depreciation	Construction Work in Progress
PEC	Mayo	83.83%	$ 518	$ 255	$ 1
PEC	Harris	83.83%	3,146	1,459	17
PEC	Brunswick	81.67%	1,623	921	23
PEC	Roxboro Unit 4	87.06%	355	153	10
PEF	Crystal River Unit 3	91.78%	808	493	48
PEF	Intercession City Unit P11	66.67%	24	4	-

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

D. Asset Retirement Obligations

At December 31, 2006 and 2005, the asset retirement costs, included in utility plant, related to nuclear decommissioning of irradiated plant, net of accumulated depreciation for PEC, totaled $30 million and $31 million, respectively. No costs related to nuclear decommissioning of irradiated plant were recorded at December 31, 2006 and 2005 at PEF. At December 31, 2006 and 2005, additional PEF-related asset retirement costs, net of accumulated depreciation, of $126 million and $137 million, respectively, were recorded at Progress Energy. The fair value of funds set aside in the Utilities' nuclear decommissioning trust funds for the nuclear decommissioning liability totaled $735 million and $640 million at December 31, 2006 and 2005, respectively, for PEC and $552 million and $493 million, respectively, for PEF. Net nuclear decommissioning trust unrealized gains are included in regulatory liabilities (See Note 7A).

PEC's decommissioning cost provisions, which are included in depreciation and amortization expense, were $31 million each in 2006, 2005 and 2004. Management believes that decommissioning costs that have been and will be recovered through rates by PEC and PEF will be sufficient to provide for the costs of decommissioning. Expenses recognized for the disposal or removal of utility assets that are not SFAS No. 143 asset retirement obligations, which are included in depreciation and amortization expense, were $96 million, $90 million and $83 million in 2006, 2005 and 2004, respectively, for PEC and $27 million, $78 million and $77 million in 2006, 2005 and 2004, respectively, for PEF.

During 2005, PEF performed a depreciation study as required by the FPSC no less than every four years. Implementation of the depreciation study decreased the rates used to calculate cost of removal expense with a resulting decrease of approximately $55 million in 2006.

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

(in millions)	Progress Energy 2006	Progress Energy 2005	PEC 2006	PEC 2005	PEF 2006	PEF 2005
Removal costs	$ **1,341**	$ 1,316	$ **727**	$ 661	$ **614**	$ 655
Nonirradiated decommissioning costs	**137**	132	**76**	71	**61**	61
Dismantlement costs	**124**	123	**-**	-	**124**	123
Non-ARO cost of removal	$ **1,602**	$ 1,571	$ **803**	$ 732	$ **799**	$ 839

The NCUC requires that PEC update its cost estimate for nuclear decommissioning every five years. PEC's most recent site-specific estimates of decommissioning costs were developed in 2004, using 2004 cost factors, and are based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures currently at the site, with such removal occurring after operating license expiration. These decommissioning cost estimates also include interim spent fuel storage costs associated with maintaining spent nuclear fuel on site until such time that it can be transferred to a DOE facility (See Note 22D). These estimates, in 2004 dollars, were $569 million for Unit No. 2 at Robinson Nuclear Plant (Robinson), $418 million for Brunswick Nuclear Plant (Brunswick) Unit No. 1, $444 million for Brunswick Unit No. 2, and $775 million for Harris. The estimates are subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimates exclude the portion attributable to North Carolina Eastern Municipal Power Agency (Power Agency), which holds an undivided ownership interest in Brunswick and Harris. Extended NRC operating licenses held by PEC currently expire in July 2030, December 2034 and September 2036 for Robinson and Brunswick Units No. 2 and No. 1, respectively. An application to extend the licenses 20 years for the Brunswick units was approved in June 2006. The NRC operating license held by PEC for Harris currently expires in October 2026. An application to extend this license 20 years was submitted in the fourth quarter of 2006. Based on updated assumptions, in 2005 PEC further reduced its asset retirement cost net of accumulated depreciation and its ARO liability by approximately $14 million and $49 million, respectively.

The FPSC requires that PEF update its cost estimate for nuclear decommissioning every five years. PEF filed a new site-specific estimate of decommissioning costs for the Crystal River Unit No. 3 (CR3) with the FPSC on April 29, 2005, as part of PEF's base rate filing. PEF's estimate is based on prompt dismantlement decommissioning and includes interim spent fuel storage costs associated with maintaining spent nuclear fuel on site until such time that it can be transferred to a DOE facility (See Note 22D). The estimate, in 2005 dollars, is $614 million and is subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimate excludes the portion attributable to other co-owners of CR3. The NRC operating license held by PEF for CR3 currently expires in December 2016. An application to extend this license 20 years is expected to be submitted in the first quarter of 2009. As part of this new estimate and assumed license extension, PEF reduced its asset retirement cost net of accumulated depreciation and its ARO liability by approximately $36 million and $94 million, respectively. In addition, we reduced PEF-related asset retirement costs, net of accumulated depreciation, by an additional $53 million at Progress Energy. Retail accruals on PEF's reserves for nuclear decommissioning were previously suspended through December 2005 under the terms of a previous base rate agreement, and the base rate agreement resulting from a base rate proceeding in 2005 continues that suspension. In addition, the wholesale accrual on PEF's reserves for nuclear decommissioning was suspended retroactive to January 2006, following a FERC accounting order issued in November 2006.

The FPSC requires that PEF update its cost estimate for fossil plant dismantlement every four years. PEF filed an updated fossil dismantlement study with the FPSC on April 29, 2005, as part of its base rate filing. PEF's reserve for fossil plant dismantlement was approximately $145 million at December 31, 2006 and 2005, including amounts in the ARO liability

for asbestos abatement, discussed below. Retail accruals on PEF's reserves for fossil plant dismantlement were previously suspended through December 2005 under the terms of PEF's previous base rate agreement. The base rate agreement resulting from a base rate proceeding in 2005 continued the suspension of PEF's collection from customers of the expenses to dismantle fossil plants (See Note 7C).

Upon implementation of FIN 47 as of December 31, 2005, the Utilities recognized additional ARO liabilities for asbestos abatement costs (See Note 1D).

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

Our nonregulated AROs relate to the synthetic fuels operations. The related asset retirement costs, net of accumulated depreciation, totaled $3 million at December 31, 2006 and 2005.

The following table presents the changes to the AROs during the years ended December 31, 2006 and 2005. Additions relate primarily to asbestos abatement at the Utilities. Revisions to prior estimates of the PEC regulated ARO are related to remeasuring the nuclear decommissioning costs of irradiated plants to take into account updated site-specific decommissioning cost studies, which are required by the NCUC every five years. Revisions to prior estimates of the PEF regulated ARO are related to the updated cost estimate for nuclear decommissioning described above.

	Progress Energy			
(in millions)	Regulated	Nonregulated	PEC	PEF
Asset retirement obligations at January 1, 2005	$ 1,261	$ 2	$ 924	$ 337
Additions	50	-	23	27
Accretion expense	65	1	51	14
Revisions to prior estimates	(137)	-	(49)	(88)
Asset retirement obligations at December 31, 2005	1,239	3	949	290
Accretion expense	**72**	**-**	**57**	**15**
Revisions to prior estimates	**(8)**	**-**	**(2)**	**(6)**
Asset retirement obligations at December 31, 2006	**$ 1,303**	**$ 3**	**$ 1,004**	**$ 299**

E. Insurance

The Utilities are members of Nuclear Electric Insurance Limited (NEIL), which provides primary and excess insurance coverage against property damage to members' nuclear generating facilities. Under the primary program, each company is insured for $500 million at each of its respective nuclear plants. In addition to primary coverage, NEIL also provides decontamination, premature decommissioning and excess property insurance with limits of $1.750 billion on each nuclear plant.

Insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at nuclear generating units is also provided through membership in NEIL. Both PEC and PEF are insured under NEIL, following a 12-week deductible period, for 52 weeks in the amount of $4 million per week at the Brunswick, Harris and Robinson plants, and $5 million per week at the Crystal River plant. An additional 110 weeks of coverage is provided at 80 percent of the above weekly amounts. For the current policy period, the companies are subject to retrospective premium assessments of up to approximately $33 million with respect to the primary coverage, $36 million with respect to the decontamination, decommissioning and excess property coverage, and $24 million for the incremental replacement power costs coverage, in the event covered losses at insured facilities exceed premiums, reserves, reinsurance and other NEIL resources. Pursuant to regulations of the NRC, each company's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place the plant in a safe and stable condition after an accident and, second, to decontaminate, before any proceeds can be used for decommissioning, plant repair or restoration. Each

company is responsible to the extent losses may exceed limits of the coverage described above.

Both of the Utilities are insured against public liability for a nuclear incident up to $10.760 billion per occurrence. Under the current provisions of the Price Anderson Act, which limits liability for accidents at nuclear power plants, each company, as an owner of nuclear units, can be assessed for a portion of any third-party liability claims arising

from an accident at any commercial nuclear power plant in the United States. In the event that public liability claims from an insured nuclear incident exceed $300 million (currently available through commercial insurers), each company would be subject to pro rata assessments of up to $100 million for each reactor owned per occurrence. Payment of such assessments would be made over time as necessary to limit the payment in any one year to no more than $15 million per reactor owned.

Under the NEIL policies, if there were multiple terrorism losses occurring within one year, NEIL would make available one industry aggregate limit of $3.200 billion, along with any amounts it recovers from reinsurance, government indemnity or other sources up to the limits for each claimant. If terrorism losses occurred beyond the one-year period, a new set of limits and resources would apply. For nuclear liability claims arising out of terrorist acts, the primary level available through commercial insurers is now subject to an industry aggregate limit of $300 million. The second level of coverage obtained through the assessments discussed above would continue to apply to losses exceeding $300 million and would provide coverage in excess of any diminished primary limits due to terrorist acts.

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

6. CURRENT ASSETS

A. Receivables

Income tax receivables and interest income receivables are not included in receivables. These amounts are included in prepaids and other current assets on the Consolidated Balance Sheets. At December 31 receivables were comprised of:

	Progress Energy		PEC		PEF	
(in millions)	**2006**	2005	**2006**	2005	**2006**	2005
Trade accounts receivable	**$ 628**	$ 661	**$ 285**	$ 336	**$ 288**	$ 263
Unbilled accounts receivable	**227**	227	**157**	158	**55**	60
Notes receivable	**57**	83	**-**	-	**-**	-
Other receivables	**46**	45	**36**	28	**5**	14
Allowance for doubtful accounts receivable	**(28)**	(19)	**(5)**	(4)	**(8)**	(6)
Total receivables	**$ 930**	$ 997	**$ 473**	$ 518	**$ 340**	$ 331

B. Inventory

At December 31 inventory was comprised of:

	Progress Energy		PEC		PEF	
(in millions)	**2006**	2005	**2006**	2005	**2006**	2005
Fuel for production	**$ 470**	$ 321	**$ 230**	$ 185	**$ 240**	$ 136
Inventory for sale	**34**	61	**-**	-	**-**	-
Materials and supplies	**443**	406	**247**	240	**194**	166
Emission allowances	**22**	35	**20**	26	**2**	9
Total current inventory	**$ 969**	$ 823	**$ 497**	$ 451	**$ 436**	$ 311

Materials and supplies amounts above exclude long-term combustion turbine inventory amounts included in other assets and deferred debits for Progress Energy and PEC of $44 million at December 31, 2006 and 2005.

Emission allowances above exclude long-term emission allowances included in other assets and deferred debits for Progress Energy, PEC and PEF of $14 million, $13 million and $1 million, respectively, at December 31, 2005. Progress Energy, PEC and PEF did not have any long-term emission allowance amounts at December 31, 2006.

7. REGULATORY MATTERS

A. Regulatory Assets and Liabilities

As regulated entities, the Utilities are subject to the provisions of SFAS No. 71. Accordingly, the Utilities record certain assets and liabilities resulting from the effects of the ratemaking process that would not be recorded under GAAP for nonregulated entities. The Utilities' ability to continue to meet the criteria for application of SFAS No. 71 could be affected in the future by competitive forces and restructuring in the electric utility industry. In the event that SFAS No. 71 no longer applies to a separable portion of our operations, related regulatory assets and liabilities would be eliminated unless an appropriate regulatory recovery mechanism was provided. Additionally, such an event could result in an impairment of utility plant assets as determined pursuant to SFAS No. 144.

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

Progress Energy

(in millions)	2006	2005
Deferred fuel cost - current (Note 7B)	**$ 196**	$ 602
Deferred fuel cost - long-term (Note 7B)	**114**	31
Deferred impact of ARO - PEC (Note 1D)	**282**	281
Income taxes recoverable through future rates (Note 14)	**114**	81
Loss on reacquired debt (Note 1D)	**46**	50
Storm deferral (Notes 7B and 7C)	**102**	227
Postretirement benefits (Note 16)	**373**	88
Derivative mark-to-market adjustment (Note 17)	**78**	6
Environmental (Notes 7B, 7C and 21A)	**72**	26
Other	**50**	64
Total long-term regulatory assets	**1,231**	854
Deferred fuel cost - current (Note 7C)	**(63)**	-
Deferred energy conservation cost and other current regulatory liabilities	**(13)**	(10)
Total current regulatory liabilities	**(76)**	(10)
Non-ARO cost of removal (Note 5D)	**(1,602)**	(1,571)
Deferred impact of ARO - PEF (Note 1D)	**(221)**	(225)
Net nuclear decommissioning trust unrealized gains (Note 5D)	**(330)**	(251)
Clean Smokestacks Act compliance (Note 21B)	**(333)**	(317)
Derivative mark-to-market adjustment (Note 17A)	**-**	(122)
Other	**(57)**	(41)
Total long-term regulatory liabilities	**(2,543)**	(2,527)
Net regulatory liabilities	**$ (1,192)**	$ (1,081)

PEC

(in millions)	2006	2005
Deferred fuel cost - current (Note 7B)	**$ 196**	$ 261
Deferred fuel cost - long-term (Note 7B)	**114**	31
Deferred impact of ARO (Note 1D)	**282**	281
Income taxes recoverable through future rates (Note 14)	**50**	22
Loss on reacquired debt (Note 1D)	**19**	21
Storm deferral (Note 7B)	**12**	19
Postretirement benefits (Note 16)	**243**	-
Environmental (Note 7B)	**15**	-
Other	**42**	47
Total long-term regulatory assets	777	421
Non-ARO cost of removal (Note 5D)	**(803)**	(732)
Net nuclear decommissioning trust unrealized gains (Note 5D)	**(171)**	(135)
Clean Smokestacks Act compliance (Note 21B)	**(333)**	(317)
Other	**(13)**	(12)
Total long-term regulatory liabilities	**(1,320)**	(1,196)
Net regulatory liabilities	**$ (347)**	$ (514)

PEF

(in millions)	2006	2005
Deferred fuel cost - current (Note 7C)	$ -	$ 341
Storm deferral (Note 7C)	**90**	208
Income taxes recoverable through future rates (Note 14)	**64**	59
Loss on reacquired debt (Note 1D)	**27**	29
Postretirement benefits (Note 16)	**130**	7
Derivative mark-to-market adjustment (Note 17A)	**78**	6
Environmental (Notes 7C and 21A)	**57**	26
Other	**8**	16
Total long-term regulatory assets	**454**	351
Deferred fuel cost - current (Note 7C)	**(63)**	-
Deferred energy conservation cost and other current regulatory liabilities	**(13)**	(10)
Total current regulatory liabilities	**(76)**	(10)
Non-ARO cost of removal (Note 5D)	**(799)**	(839)
Deferred impact of ARO (Note 1D)	**(88)**	(80)
Net nuclear decommissioning trust unrealized gains (Note 5D)	**(159)**	(116)
Derivative mark-to-market adjustment (Note 17A)	**-**	(122)
Other	**(45)**	(32)
Total long-term regulatory liabilities	**(1,091)**	(1,189)
Net regulatory liabilities	**$ (713)**	$ (507)

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

B. PEC Retail Rate Matters

BASE RATES

PEC's base rates are subject to the regulatory jurisdiction of the NCUC and SCPSC. As further discussed in Note 21B, the Clean Smokestacks Act was enacted in 2002. The Clean Smokestacks Act freezes North Carolina electric utility base rates for a five-year period ending in December 2007, unless there are extraordinary events beyond the control of the utilities or unless the utilities persistently earn a return substantially in excess of the rate of return established and found reasonable by the NCUC in the respective utility's last general rate case. During the rate freeze period, the legislation provides for the amortization and recovery of 70 percent of the original estimated compliance costs while providing significant flexibility in the amount of annual amortization recorded from none up to $174 million per year. Subsequent to 2007, PEC's current North Carolina base rates will continue subject to traditional cost-based rate regulation.

FUEL COST RECOVERY

On May 3, 2006, PEC filed with the SCPSC for an increase in the fuel rate charged to its South Carolina ratepayers for under-recovered fuel costs and to meet future expected fuel costs. On June 16, 2006, the SCPSC approved a settlement agreement filed jointly by PEC and all other parties to the proceeding. The settlement agreement provided for a $23 million, or 4.6 percent, increase in rates. The increase was $4 million less than PEC originally requested due to adjustment of future fuel cost estimates agreed upon during settlement. Effective July 1, 2006, residential electric bills increased by $3.01 per 1,000 kWhs for fuel cost recovery. At December 31, 2006, PEC's South Carolina deferred fuel balance was $29 million, of which $5 million is expected to be collected after 2007 in accordance with the settlement agreement and, therefore, has been classified as a long-term regulatory asset.

On June 2, 2006, PEC filed with the NCUC for an increase in the fuel rate charged to its North Carolina ratepayers. On September 25, 2006, the NCUC approved a settlement agreement filed jointly by PEC, the NCUC Public Staff and the Carolinas Industrial Group for Fair Utility Rates II. The settlement agreement provided for a $177 million, or 6.7 percent increase in rates effective October 1, 2006. The settlement agreement further provides for rate increases of $50 million in 2007 and $30 million in 2008 and for PEC to collect its existing deferred fuel balance by September 30, 2009. PEC initially sought an increase of $292 million, or 11.0 percent, but agreed to a three-year phase-in of the increase in order to address concerns regarding the magnitude of the proposed increase. PEC will be allowed to calculate and collect interest at 6% on the difference between its fuel factor proposed in its original request to the NCUC and the settlement agreement's factor. Effective October 1, 2006, residential electric bills increased by $4.87 per 1,000 kWhs for fuel cost recovery. At December 31, 2006, PEC's North Carolina deferred fuel balance was $281 million, of which $109 million is expected to be collected after 2007 in accordance with the settlement agreement and, therefore, has been classified as a long-term regulatory asset.

The Carolina Utility Customers Association (CUCA) appealed the NCUC's order on November 21, 2006 on the grounds that the NCUC does not have the statutory authority to establish fuel rates for more than one year. We anticipate filing a motion to dismiss during the first quarter of 2007. We cannot predict the outcome of this matter.

STORM COST RECOVERY

In February 2004, PEC filed with the SCPSC seeking permission to defer expenses incurred from the first quarter 2004 winter storm. In September 2004, the SCPSC approved PEC's request to defer the costs and amortize them ratably over five years beginning in January 2005. Approximately $9 million related to storm costs was deferred in 2004. During each of 2006 and 2005, PEC recognized $2 million of South Carolina storm amortization.

In October 2003, PEC filed with the NCUC seeking permission to defer approximately $24 million of expenses incurred from Hurricane Isabel and the February 2003 winter storms. In December 2003, the NCUC approved PEC's request to defer the costs associated with Hurricane Isabel and the February 2003 winter storms and amortize them over a period of five years. During each of 2006, 2005 and 2004, PEC recognized $5 million of North Carolina storm amortization.

OTHER MATTERS

PEC filed petitions on September 14, 2006, and September 22, 2006, with the SCPSC and NCUC, respectively, seeking authorization to defer and amortize $18 million of previously recorded operation and maintenance (O&M) expense relating to certain environmental remediation sites (See Note 21A). On October 11, 2006, the SCPSC granted PEC's petition to defer its jurisdictional amount, totaling $3 million, and amortize it over a five-year period beginning January 1, 2007. On October 19, 2006, the NCUC granted PEC's petition to defer its jurisdictional amount, totaling $15 million, and amortize it over a five-year period. However, the NCUC order directed that amortization begin in the fourth quarter of 2006, with an amortization expense of $3 million. As a result, during the fourth quarter of 2006, PEC reversed $18 million of O&M expense, established a regulatory asset and recorded $3 million of amortization expense.

As discussed in Note 21B, PEC reclassified $29 million of expense from other, net to depreciation and amortization expense on the Consolidated Statements of Income for Clean Smokestacks Act amortization recognized during 2006.

The NCUC and SCPSC have approved proposals to accelerate cost recovery of PEC's nuclear generating assets beginning January 1, 2000, and continuing through 2009. The aggregate minimum and maximum amounts of cost recovery are $530 million and $750 million, respectively. Accelerated cost recovery of these assets resulted in no additional expense in 2006, 2005 or 2004. Through December 31, 2006, PEC recorded total accelerated depreciation of $403 million.

C. PEF Retail Rate Matters

BASE RATE AGREEMENT

As a result of a base rate proceeding in 2005, PEF is party to a base rate settlement agreement that was effective with the first billing cycle of January 2006 and will remain in effect through the last billing cycle of December 2009, with PEF having sole option to extend the agreement through the last billing cycle of June 2010. Additionally, PEF will continue to recover and collect a return on Hines Unit 2 through the fuel clause through late 2007, when it will be transferred into base rates. This transfer will correspond with the in-service dates of Hines Unit 4, which will also be recovered through a base rate increase. The settlement agreement also provides for revenue sharing between PEF and its ratepayers beginning in 2006 whereby PEF will refund two-thirds of retail base revenues between the specified threshold and specified cap and 100 percent of revenues above the specified cap. However, PEF's retail base revenues did not exceed the specified 2006 threshold of $1.499 billion and thus no revenues were subject to revenue sharing. Both the 2006 base threshold of $1.499 billion and the 2006 cap of $1.549 billion will be adjusted annually for rolling average 10-year retail kWh sales growth. The settlement agreement provides for PEF to continue to recover certain costs through clauses, such as the recovery of post-9/11 security costs through the capacity clause and the carrying costs of coal inventory in transit and coal procurement costs through the fuel clause. Under the settlement agreement, PEF is authorized to include an adjustment to increase common equity for the impact of Standard & Poor's Rating Services' (S&P's) imputed off-balance sheet debt for future capacity payments to qualifying facilities (QFs) and other entities under long-term purchase power agreements. This adjusted capital structure will be used for surveillance reporting with the FPSC and pass-through clause return calculations. PEF will use an authorized 11.75 percent return on equity (ROE) for cost-recovery clauses and AFUDC. In addition, PEF's adjusted equity ratio will be capped at 57.83 percent as calculated on a financial capital structure that includes the adjustment for the S&P imputed off-balance sheet debt. If PEF's regulatory ROE falls below 10 percent, and for certain other events, PEF is authorized to petition the FPSC for a base rate increase.

PASS-THROUGH CLAUSE COST RECOVERY

On September 1 and September 15, 2006, PEF filed requests with the FPSC seeking increases to cover rising fuel, environmental compliance and energy conservation costs. PEF asked the FPSC to approve a $171 million, or 3.7 percent, increase in rates. Subsequently, on October 25 and October 31, 2006, PEF supplemented its September filings to reflect

lower projected fuel costs for PEF. PEF's revised forecasts resulted in a $40 million, or 0.7 percent, increase in rates over 2006. On November 8, 2006, the FPSC approved PEF's supplemental filing. The new charges

were effective January 1, 2007, and increased residential bills $0.78 for the first 1,000 kWhs. At December 31, 2006, PEF was over-recovered in fuel and capacity costs by $63 million and under-recovered in environmental compliance by $14 million.

On August 10, 2006, Florida's Office of Public Counsel (OPC) filed a petition with the FPSC asking that the FPSC require PEF to refund to ratepayers $143 million, plus interest, of alleged excessive past fuel recovery charges and sulfur dioxide (SO_2) allowance costs associated with PEF's purported failure to utilize the most economical sources of coal at Crystal River Unit 4 and Crystal River Unit 5 (CR4 and CR5) during the period 1996 to 2005. The OPC subsequently revised its claim to $135 million, plus interest. The OPC claims that although CR4 and CR5 were designed to burn a blend of coals, PEF failed to act to lower ratepayers' costs by purchasing the most economical blends of coal. During the period specified in the petition, PEF's costs recovered through fuel recovery clauses were annually reviewed for prudence and approval by the FPSC. On August 30, 2006, PEF filed a motion with the FPSC to dismiss the petition on the grounds that the OPC petition would require the FPSC to engage in retroactive ratemaking for rates previously approved under the fuel recovery clause. On September 13, 2006, the OPC filed a memorandum in opposition to PEF's motion to dismiss the petition. PEF's motion to dismiss was denied by the FPSC on December 19, 2006. A hearing on the matter has been scheduled by the FPSC for April 2, 2007. PEF believes that its coal procurement practices were prudent and that it has sound legal and factual arguments to successfully defend its position. We cannot predict the outcome of this matter.

On September 22, 2006, PEF filed a petition with the FPSC for determination of need to uprate CR3, bid rule exemption and recovery of the costs through PEF's fuel recovery clause. The uprate will increase CR3's gross output by approximately 180 MW. The uprate will take place in two stages: approximately 40 MW will be added through equipment modifications during the 2009 refueling outage and approximately 140 MW will be added by modifying the design of the plant during the 2011 refueling outage to use more highly enriched fuel. The design modifications will require a license amendment approved by the NRC. The project is estimated to cost approximately $382 million, which includes potential transmission system improvements and modifications to comply with environmental regulations. The costs may continue to change depending upon the results of more detailed engineering and development work and increased material, labor and equipment costs. On February 8, 2007, the FPSC issued an order approving the need certification petition and bid rule exemption. The request for recovery of uprate costs through PEF's fuel recovery clause was transferred to a separate docket filed on January 16, 2007. The FPSC has scheduled a hearing to be held May 23, 2007, to determine whether the uprate costs should be recovered through the fuel adjustment clause. If PEF does not receive approval to recover the uprate costs through the fuel adjustment clause, these costs will be recoverable through base rates, similar to other utility plant additions. On February 2, 2007, intervenors filed a motion to abate the cost-recovery portion of PEF's request. On February 9, 2007, PEF requested that the FPSC deny the intervenors' motion as legally deficient and without merit. We cannot predict the outcome of this matter.

STORM COST RECOVERY

On July 14, 2005, the FPSC issued an order authorizing PEF to recover $232 million over a two-year period, including interest, of the costs it incurred and previously deferred related to PEF's restoration of power associated with the four hurricanes in 2004. The ruling allowed PEF to include a charge of approximately $3.27 on the average residential monthly customer bill of 1,000 kWhs beginning August 1, 2005. The ruling by the FPSC approved the majority of PEF's requests with two exceptions: the reclassification of $8 million of previously deferred costs to utility plant and the reclassification of $17 million of previously deferred costs as O&M expense, which was expensed in the second quarter of 2005. The amount included in the original November 2004 petition requesting recovery of $252 million was an estimate. On September 12, 2005, PEF filed a true-up to the original amount comprised primarily of an additional $19 million of costs partially offset by $6 million of adjustments resulting from allocating a higher portion of the costs to the wholesale jurisdiction and refining the FPSC adjustments. On November 9, 2005, the recovery of this difference was administratively approved by the FPSC, subject to audit by the FPSC staff. The net impact was included in customer bills beginning January 1, 2006. In 2006 and 2005, PEF recorded amortization of $122 million and $50 million, respectively,

associated with the recovery of these storm costs.

On April 25, 2006, PEF entered into a settlement agreement with certain intervenors in its storm cost-recovery docket that would allow PEF to extend its current two-year storm surcharge, which equals approximately $3.61 on the average residential monthly customer bill of 1,000 kWhs, for an additional 12-month period to replenish its storm reserve. The requested extension, which would begin August 2007, would replenish the existing storm reserve by an estimated additional $130 million. During the third quarter of 2006, PEF and the intervenors modified the settlement agreement such that in the event future storms deplete the reserve, PEF would be able to petition the FPSC for implementation of an interim surcharge of at least 80 percent and up to 100 percent of the claimed deficiency of its storm reserve. The intervenors agreed not to oppose the interim recovery of 80 percent of the future claimed deficiency but reserved the right to challenge the interim surcharge recovery of the remaining 20 percent. The FPSC has the right to review PEF's storm costs for prudence. On August 29, 2006, the FPSC approved the settlement agreement as modified.

FRANCHISE MATTERS

On June 1, 2005, Winter Park acquired PEF's electric distribution system that serves Winter Park for approximately $42 million. On June 1, 2005, PEF transferred the distribution system to Winter Park and recognized a pre-tax gain of approximately $25 million on the transaction, which is included as an offset to other utility expense on the Statements of Income. This amount was decreased $1 million in the third quarter of 2005 upon accumulation of the final capital expenditures incurred since arbitration. PEF also recorded a regulatory liability of $8 million for stranded cost revenues, which will be amortized to revenues over six years in accordance with the provisions of the transfer agreement with Winter Park. In June 2004, Winter Park executed a wholesale power supply contract with PEF with a five-year term and a renewal option.

OTHER MATTERS

On November 3, 2004, the FPSC approved PEF's petition for Determination of Need for the construction of a fourth unit at PEF's Hines Energy Complex. Hines Unit 4 is needed to maintain electric system reliability and integrity and to continue to provide adequate electricity to its ratepayers at a reasonable cost. The unit is planned for commercial operation in December 2007. Hines Unit 4 will be a combined cycle unit with a generating capacity of 461 MW (summer rating). The estimated total in-service cost of Hines Unit 4 approved as part of the Determination of Need was $286 million. If the actual cost is less than the original estimate, ratepayers will receive the benefit of such cost under-runs. Any costs that exceed this estimate will not be recoverable absent, among other things, extraordinary circumstances as found by the FPSC in subsequent proceedings. The current estimate of in-service cost exceeds the initial project estimate by approximately 12 percent to 15 percent due to what we believe to be extraordinary circumstances. Therefore, we believe that disallowance of these costs by the FPSC in subsequent proceedings is not probable. We cannot predict the outcome of this matter.

D. Regional Transmission Organizations

In 2000, the FERC issued Order 2000, which set minimum characteristics and functions that regional transmission organizations (RTOs) must meet, including independent transmission service. In October 2000, as a result of Order 2000, PEC, along with Duke Energy Corporation and South Carolina Electric & Gas Company, filed an application with the FERC for approval of an RTO, GridSouth. In July 2001, the FERC issued an order provisionally approving GridSouth. However, in July 2001, the FERC issued orders recommending that companies in the southeastern United States engage in mediation to develop a plan for a single RTO. PEC participated in the mediation; no consensus was reached on creating a Southeast RTO. On August 11, 2005, the GridSouth participants notified the FERC that they had terminated the GridSouth project. By order issued October 20, 2005, the FERC terminated the GridSouth proceeding. PEC's investment in GridSouth totaled $33 million at December 31, 2006 and 2005. PEC expects to recover its investment.

PEF was one of three major investor-owned Florida utilities that formed the GridFlorida RTO in 2000. A cost-benefit study conducted during 2005 concluded that the GridFlorida RTO was not cost effective for FPSC jurisdictional

customers and shifted benefits to nonjurisdictional customers. In light of these findings, during 2006 the FPSC and the FERC closed their respective docketed proceedings and GridFlorida was dissolved. PEF fully recovered its startup costs in GridFlorida from retail ratepayers through base rates.

E. Nuclear License Renewals

On June 26, 2006, Brunswick received 20-year extensions from the NRC on the operating licenses for its two nuclear reactors. The operating licenses have been extended to 2036 for Unit No. 1 and 2034 for Unit No. 2. On November 14, 2006, PEC filed an application for a 20-year extension from the NRC on the operating license for Harris, which would extend the operating license through 2046, if approved.

F. FERC Market Power Mitigation

In April 2004, the FERC issued two orders concerning utilities' ability to sell wholesale electricity at market-based rates. In the first order, the FERC adopted two interim screens for assessing potential generation market power of applicants for wholesale market-based rates, and described additional analyses and mitigation measures that could be presented if an applicant did not pass one of the interim screens. In July 2004, the FERC issued an order on rehearing affirming its conclusions in the April order. In the second order, the FERC initiated a rulemaking to consider whether the FERC's current methodology for determining whether a public utility should be allowed to sell wholesale electricity at market-based rates should be modified in any way. PEF does not have market-based rate authority for wholesale sales in peninsular Florida. Given the difficulty PEC believed it would experience in passing one of the interim screens, on September 6, 2005, PEC filed revisions to its market-based rate tariffs restricting them to sales outside PEC's control area and peninsular Florida and a new cost-based tariff for sales within PEC's control area. The FERC has accepted these revised tariffs.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

We perform annual goodwill impairment tests in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). Goodwill was tested for impairment for both the PEC and PEF segments in the second quarters of 2005 and 2006; each test indicated no impairment.

Under SFAS No. 142, all goodwill is assigned to our reporting units that are expected to benefit from the synergies of the business combination. At December 31, 2006 and 2005, our carrying amount of goodwill was $3.655 billion, with $1.922 billion assigned to PEC and $1.733 billion assigned to PEF. The amounts assigned to PEC and PEF are recorded in our Corporate and Other business segment. There were no changes to the assignment of the carrying amounts to PEC and PEF in 2006 or 2005.

Included in the assets of discontinued operations at December 31, 2005, is the goodwill related to CCO. For CCO, the goodwill impairment tests were performed at the reporting unit level of our Effingham, Monroe, Walton and Washington nonregulated generating plants (Georgia Region), which is one level below CCO. As a result of our evaluation of certain business opportunities that impacted the future cash flows of our Georgia Region operations, we performed an interim goodwill impairment test during the first quarter of 2006. We estimated the fair value of that reporting unit using the expected present value of future cash flows. As a result of that test, we recognized a pre-tax goodwill impairment charge of $64 million ($39 million after-tax) during the first quarter of 2006, which was previously reported within impairment of assets on the Consolidated Statements of Income. This impairment was reclassed to discontinued operations on the Consolidated Statements of Income during the fourth quarter of 2006 (See Note 3A).

The gross carrying amount and accumulated amortization of the intangible assets at December 31 were as follows:

	2006		2005	
(in millions)	**Gross Carrying Amount**	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
Synthetic fuels intangibles	**$ 107**	**$ (107)**	$ 134	$ (98)
Other	**6**	**(6)**	29	(6)

Total	$	**113**	**$**	**(113)**	$	163	$	(104)

All of our intangibles, except minimum pension liability adjustments, are subject to amortization. Synthetic fuels intangibles represent intangibles for synthetic fuels technology. Other intangibles are primarily acquired customer contracts, permits that are amortized over their respective lives and minimum pension liability adjustments.

PEC had intangible assets related to minimum pension liability adjustments of $17 million at December 31, 2005. PEF had intangible assets related to minimum pension liability adjustments of $2 million at December 31, 2005. Due to the adoption of SFAS No. 158 in 2006, minimum pension liability adjustments and related intangible assets are no longer recorded (See Note 2).

Amortization expense recorded on intangible assets was $9 million for the year ended December 31, 2006, and $19 million for both years ended December 31, 2005 and 2004. No amortization expense on intangible assets was recorded at PEC and PEF for each of the years ended December 31, 2006, 2005 and 2004. No annual amortization expense for intangible assets is expected for 2007 through 2011.

We apply SFAS No. 144 for the accounting and reporting of impairment or disposal of long-lived assets. On May 22, 2006, we idled our synthetic fuels facilities due to significant uncertainty surrounding future synthetic fuels production. With the idling of these facilities, we performed an evaluation of the intangible assets, which were comprised primarily of capitalized acquisition costs (See Note 9 for impairment of related long-lived assets). The impairment test considered numerous factors including, among other things, continued high oil prices and the then-current "idle" state of our synthetic fuels facilities. We estimated the fair value using the expected present value of future cash flows. Based on the results of the impairment test, we recorded a pre-tax impairment charge of $27 million ($17 million after-tax) during the quarter ended June 30, 2006, which is reported within impairment of assets on the Consolidated Statements of Income. This charge represents the entirety of the synthetic fuels intangible assets; these assets had been reported within the Coal and Synthetic Fuels segment. Following a significant decrease in oil prices, our synthetic fuels facilities resumed limited production of synthetic fuels in September and October 2006, which continued through the end of 2006.

9. IMPAIRMENTS OF LONG-LIVED ASSETS AND INVESTMENTS

We apply SFAS No. 144 for the accounting and reporting of impairment or disposal of long-lived assets. In 2006 and 2005, we recorded pre-tax long-lived asset and investment impairments and other charges of $65 million and $1 million, respectively. PEC recorded pre-tax long-lived asset and investment impairments and other charges of $1 million in both 2006 and 2005. No impairments were recorded in 2004.

A. Long-Lived Assets

Due to rising current and future oil prices, in the third and fourth quarters of 2005 we tested our synthetic fuels plant assets for impairment. These tests indicated that the assets were recoverable and no impairment charge was recorded. See Note 22D for additional information.

Concurrent with the synthetic fuels intangibles impairment evaluation discussed in Note 8, we also performed an impairment evaluation of related long-lived assets during the second quarter of 2006. Based on the results of the impairment test, we recorded a pre-tax impairment charge of $64 million ($38 million after-tax) during the quarter ended June 30, 2006, which is reported within impairment of assets on the Consolidated Statements of Income. This charge represents the entirety of the asset carrying value of our synthetic fuels manufacturing facilities, as well as a portion of the asset carrying value associated with the river terminals at which the synthetic fuels manufacturing facilities are located. These assets had been reported within the Coal and Synthetic Fuels segment. As discussed in Note 8, our synthetic fuels facilities resumed limited production of synthetic fuels in September and October 2006, which continued through the end of 2006.

B. Investments

We evaluate declines in value of investments under the criteria of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115), and FASB Staff Position FAS 115-1/124-1, "The Meaning of Other-Than-Temporary Impairments and Its Application to Certain Investments" (See Note 1D).

Declines in fair value to below the cost basis judged to be other than temporary on available-for-sale securities are included in regulatory liabilities on the Consolidated Balance Sheets for securities held in our nuclear decommissioning trust funds and in operation and maintenance expense and other, net on the Consolidated Statements of Income for securities in our benefit investment trusts and other available-for-sale securities. See Note 13 for additional information.

We continually review PEC's affordable housing investment (AHI) portfolio for impairment. As a result of various factors including continued operating losses of the AHI portfolio and management issues arising at certain properties within the AHI portfolio, we recorded impairment charges of $1 million on a pre-tax basis in both 2006 and 2005. No impairments were recorded in 2004.

10. EQUITY

A. Common Stock

Progress Energy

At December 31, 2006 and 2005, we had 500 million shares of common stock authorized under our charter, of which 256 million shares and 252 million shares, respectively, were outstanding. During 2006, 2005 and 2004, respectively, we issued approximately 4.2 million, 4.8 million and 1.7 million shares of common stock, resulting in approximately $185 million, $208 million and $73 million in proceeds. Included in these amounts for 2006, 2005 and 2004, respectively, were approximately 1.6 million, 4.6 million and 1.4 million shares for proceeds of approximately $70 million, $199 million and $62 million, to meet the requirements of the Progress Energy 401(k) Savings and Stock Ownership Plan (401(k)) and the Investor Plus Stock Purchase Plan.

At December 31, 2006 and 2005, we had approximately 54 million shares and 58 million shares, respectively, of common stock authorized by the board of directors that remained unissued and reserved, primarily to satisfy the requirements of our stock plans. In 2002, the board of directors authorized meeting the requirements of the 401(k) and the Investor Plus Stock Purchase Plan with original issue shares. We continue to meet the requirements of the restricted stock plan with issued and outstanding shares.

There are various provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. At December 31, 2006, there were no significant restrictions on the use of retained earnings (See Note 12).

PEC

At December 31, 2006 and 2005, PEC was authorized to issue up to 200 million shares of common stock. All shares issued and outstanding are held by Progress Energy. There are various provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. At December 31, 2006, there were no significant restrictions on the use of retained earnings. See Note 12 for additional dividend restrictions related to PEC.

PEF

At December 31, 2006 and 2005, PEF was authorized to issue up to 60 million shares of common stock. All PEF common shares issued and outstanding are indirectly held by Progress Energy. There are various provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. At December 31, 2006, there were no significant restrictions on the use of retained earnings. See Note 12 for additional dividend restrictions related to PEF.

B. Stock-Based Compensation

EMPLOYEE STOCK OWNERSHIP PLAN

We sponsor the 401(k) for which substantially all full-time nonbargaining unit employees and certain part-time nonbargaining unit employees within participating subsidiaries are eligible. At December 31, 2006 and 2005, participating subsidiaries were PEC, PEF, PVI, Progress Fuels (corporate employees) and PESC. The 401(k), which has matching and incentive goal features, encourages systematic savings by employees and provides a method of acquiring Progress Energy common stock and other diverse investments. The 401(k), as amended in 1989, is an Employee Stock Ownership Plan (ESOP) that can enter into acquisition loans to acquire Progress Energy common stock to satisfy 401(k) common share needs. Qualification as an ESOP did not change the level of benefits received by employees under the 401 (k). Common stock acquired with the proceeds of an ESOP loan is held by the 401(k) Trustee in a suspense account. The common stock is released from the suspense account and made available for allocation to participants as the ESOP loan is repaid. Such allocations are used to partially meet common stock needs related to matching and incentive contributions and/or reinvested dividends. All or a portion of the dividends paid on ESOP suspense shares and on ESOP shares allocated to participants may be used to repay ESOP acquisition loans. Dividends that are used to repay such loans, paid directly to participants or reinvested by participants, are deductible for income tax purposes.

There were 2.3 million and 2.9 million ESOP suspense shares at December 31, 2006 and 2005, respectively, with a fair value of $112 million and $126 million, respectively. ESOP shares allocated to plan participants totaled 10.9 million and 11.4 million at December 31, 2006 and 2005, respectively. Our matching and incentive goal compensation cost under the 401(k) is determined based on matching percentages and incentive goal attainment as defined in the plan. Such compensation cost is allocated to participants' accounts in the form of Progress Energy common stock, with the number of shares determined by dividing compensation cost by the common stock market value at the time of allocation. We currently meet common stock share needs with open market purchases, with shares released from the ESOP suspense account and with newly issued shares. Costs for incentive goal compensation are accrued during the fiscal year and typically paid in shares in the following year, while costs for the matching component are typically met with shares in the same year incurred. Matching and incentive costs, which were met and will be met with shares released from the suspense account, totaled approximately $14 million, $18 million and $21 million for the years ended December 31, 2006, 2005 and 2004, respectively. Total matching and incentive costs were approximately $23 million, $30 million and $32 million for the years ended December 31, 2006, 2005 and 2004, respectively. We have a long-term note receivable from the 401(k) Trustee related to the purchase of common stock from us in 1989. The balance of the note receivable from the 401(k) Trustee is included in the determination of unearned ESOP common stock, which reduces common stock equity. ESOP shares that have not been committed to be released to participants' accounts are not considered outstanding for the determination of earnings per common share. Interest income on the note receivable and dividends on unallocated ESOP shares are not recognized for financial statement purposes.

PEC

PEC's matching and incentive costs, which were met and will be met with shares released from the suspense account, totaled approximately $8 million, $11 million and $12 million for the years ended December 31, 2006, 2005 and 2004, respectively. Total matching and incentive costs were approximately $13 million, $17 million and $18 million for the years ended December 31, 2006, 2005 and 2004, respectively.

PEF

PEF's matching and incentive costs, which were met and will be met with shares released from the suspense account, totaled approximately $2 million, $4 million and $5 million for the years ended December 31, 2006, 2005 and 2004, respectively. Total matching and incentive costs were approximately $4 million, $6 million and $7 million for the years

ended December 31, 2006, 2005 and 2004, respectively.

STOCK OPTIONS

Pursuant to our 1997 Equity Incentive Plan and 2002 Equity Incentive Plan, amended and restated as of July 10, 2002, we may grant options to purchase shares of Progress Energy common stock to directors, officers and eligible employees for up to 5 million and 15 million shares, respectively. Generally, options granted to employees vest one-third per year with 100 percent vesting at the end of year three, while options granted to directors vest 100 percent at the end of one year. The options expire 10 years from the date of grant. All option grants have an exercise price equal to the fair market value of our common stock on the grant date. We curtailed our stock option program in 2004 and replaced that compensation program with other programs. An immaterial number of stock options were granted in 2004 and no stock options have been granted in 2005 or 2006. We issue new shares of common stock to satisfy the exercise of previously issued stock options.

Progress Energy

A summary of the status of our stock options at December 31, 2006, and changes during the year then ended, is presented below:

(option quantities in millions)	Number of Options	Weighted-Average Exercise Price
Options outstanding, January 1	7.0	$ 43.58
Granted	-	-
Forfeited	(0.1)	44.75
Canceled	(0.2)	43.74
Exercised	(2.7)	43.37
Options outstanding, December 31	4.0	43.70
Options exercisable, December 31	4.0	43.70

The options outstanding and exercisable at December 31, 2006, had a weighted-average remaining contractual life of 5.8 years and an aggregate intrinsic value of $22 million. Total intrinsic value of options exercised during the year ended December 31, 2006, was $10 million. Total intrinsic value of options exercised during the year ended December 31, 2005, was less than $1 million. The total intrinsic value of options exercised during the year ended December 31, 2004, was $1 million.

Compensation cost, for pro forma purposes prior to the adoption of SFAS No. 123R and for expense purposes subsequent to the adoption, is measured at the grant date based on the fair value of the award and is recognized over the vesting period. The fair value for these options was estimated at the grant date using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2004
Risk-free interest rate	4.22%
Dividend yield	5.19%
Volatility factor	20.30%
Weighted-average expected life of the options (in years)	10

Dividend yield and the volatility factor were calculated using three years of historical trend information. The expected term was based on the contractual life of the options.

Stock option expense totaling $2 million was recognized in income during the year ended December 31, 2006, with a recognized tax benefit of $1 million. No compensation cost related to stock options was capitalized during the year. Stock option expense totaling $3 million was recognized in income during the year ended December 31, 2005, with a recognized tax benefit of $1 million. No compensation cost related to stock options was capitalized during the year.

As previously indicated, we did not record stock option expense prior to the adoption of SFAS No. 123R as of July 1, 2005. The following table illustrates the effect on our net income and earnings per share if the fair value method had been applied to all outstanding and nonvested awards in each period:

(in millions except per share data)	2005	2004
Net income, as reported	$ 697	$ 759
Deduct: Total stock option expense determined under fair value method for all awards, net of related tax effects	2	10
Pro forma net income	$ 695	$ 749
Earnings per share		
Basic - as reported	$ 2.82	$ 3.13
Basic - pro forma	2.81	3.09
Diluted - as reported	2.82	3.12
Diluted - pro forma	2.81	3.08

As of December 31, 2006, all options were fully vested and no compensation expense related to stock options is expected in future periods.

Cash received from the exercise of stock options totaled $115 million, $8 million and $18 million, respectively, during the years ended December 31, 2006, 2005 and 2004. The actual tax benefit for tax deductions from stock option exercises for the year ended December 31, 2006, was $4 million. The actual tax benefit for tax deductions from stock option exercises for the years ended December 31, 2005 and 2004 was not significant.

PEC

Stock option expense totaling $1 million was recognized in income during the year ended December 31, 2006, with a recognized tax benefit of less than $1 million. No compensation cost related to stock options was capitalized during the year. As of December 31, 2006, all options are fully vested and no compensation expense related to stock options is expected in future periods.

Stock option expense totaling $1 million was recognized in income during the year ended December 31, 2005, with a recognized tax benefit of less than $1 million. No compensation cost related to stock options was capitalized during the year.

As previously indicated, we did not record stock option expense prior to the adoption of SFAS No. 123R as of July 1, 2005. The following table illustrates the effect on our net income if the fair value method had been applied to all outstanding and nonvested awards in each period:

(in millions)	2005	2004
Net income, as reported	$ 493	$ 461
Deduct: Total stock option expense determined under fair value method for all awards, net of related tax effects	2	7
Pro forma net income	$ 491	$ 454

PEF

Stock option expense totaling less than $1 million was recognized in income during the year ended December 31, 2006,

with a recognized tax benefit of less than $1 million. No compensation cost related to stock options was capitalized during the year. As of December 31, 2006, all options are fully vested and no compensation expense related to stock options is expected in future periods.

Stock option expense totaling $1 million was recognized in income during the year ended December 31, 2005, with a recognized tax benefit of less than $1 million. No compensation cost related to stock options was capitalized during the year.

As previously indicated, we did not record stock option expense prior to the adoption of SFAS No. 123R as of July 1, 2005. The following table illustrates the effect on our net income if the fair value method had been applied to all outstanding and nonvested awards in each period:

(in millions)		2005		2004
Net income, as reported	$	260	$	335
Deduct: Total stock option expense determined under fair value method for all awards, net of related tax effects		1		2
Pro forma net income	$	259	$	333

OTHER STOCK-BASED COMPENSATION PLANS

We have additional compensation plans for our officers and key employees that are stock-based in whole or in part. The two primary active stock-based compensation programs are the Performance Share Sub-Plan (PSSP) and the Restricted Stock Awards (RSA) program, both of which were established pursuant to our 1997 Equity Incentive Plan and were continued under our 2002 Equity Incentive Plan, as amended and restated from time to time.

We granted cash-settled PSSP awards prior to 2005. Beginning in 2005, we are granting stock-settled PSSP awards. Under the terms of the cash-settled PSSP, our officers and key employees are granted a target number of performance shares on an annual basis that vest over a three-year consecutive period. Each performance share has a value that is equal to, and changes with, the value of a share of Progress Energy common stock, and dividend equivalents are accrued on, and reinvested in, the performance shares. The PSSP has two equally weighted performance measures, both of which are based on our results as compared to a peer group of utilities. The outcome of the performance measures can result in an increase or decrease from the target number of performance shares granted. Compensation expense is recognized over the vesting period based on the estimated fair value of the award, which is periodically updated based on expected ultimate cash payout, and is reduced by estimated forfeitures. The stock-settled PSSP is similar to the cash-settled PSSP, except that we distribute common stock shares to participants equivalent to the number of performance shares that ultimately vest. Also, the fair value of the stock-settled award is generally established at the grant date based on the fair value of common stock on that date, with certain subsequent adjustments related to our results as compared to the peer group of utilities. PSSP cash-settled liabilities totaling $4 million, $5 million and $7 million were paid in the years ended December 31, 2006, 2005 and 2004, respectively. A summary of the status of the target performance shares under the stock-settled PSSP plan at December 31, 2006, and changes during the year then ended is presented below:

	Number of Stock-Settled Performance Shares [a]		Weighted-Average Grant Date Fair Value
Beginning balance	540,588	$	44.24
Granted	556,431		44.27
Paid	(54)		44.27
Vested	-		-
Forfeited	(52,382)		44.25
Ending balance	1,044,583	$	44.26

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

For the year ended December 31, 2005, the weighted-average grant date fair value of stock-settled performance shares

granted was $44.24.

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

with corresponding increases in common stock equity. Restricted shares are not included as shares outstanding in the basic earnings per share calculation until the shares are no longer forfeitable. A summary of the status of the nonvested restricted stock shares at December 31, 2006, and changes during the year then ended, is presented below:

	Number of Restricted Shares	Weighted-Average Grant Date Fair Value
Beginning balance	588,308	$ 43.27
Granted	168,800	44.51
Vested	(102,836)	41.87
Forfeited	(50,034)	43.68
Ending balance	604,238	$ 43.82

For the years ended December 31, 2005 and 2004, the weighted-average grant date fair value of restricted stock granted was $42.56 and $46.95, respectively.

The total fair value of restricted stock vested during the years ended December 31, 2006, 2005 and 2004 was $4 million, $7 million and $16 million, respectively. Cash expended to purchase shares for the restricted stock program totaled $8 million, $8 million and $7 million during the years ended December 31, 2006, 2005 and 2004, respectively.

Our Consolidated Statements of Income included total recognized expense for other stock-based compensation plans of $25 million for the year ended December 31, 2006, with a recognized tax benefit of $10 million. The total expense recognized on our Consolidated Statements of Income for other stock-based compensation plans was $10 million, with a recognized tax benefit of $4 million, for each of the years ended December 31, 2005 and 2004. No compensation cost related to other stock-based compensation plans was capitalized.

At December 31, 2006, there was $33 million of total unrecognized compensation cost related to nonvested other stock-based compensation plan awards, which is expected to be recognized over a weighted-average period of 2.1 years.

PEC

Our Consolidated Statements of Income included total recognized expense for other stock-based compensation plans of $14 million for the year ended December 31, 2006, with a recognized tax benefit of $6 million. The total expense recognized on our Consolidated Statements of Income for other stock-based compensation plans was $7 million, with a recognized tax benefit of $3 million, for each of the years ended December 31, 2005 and 2004. No compensation cost related to other stock-based compensation plans was capitalized.

PEF

Our Statements of Income included total recognized expense for other stock-based compensation plans of $7 million for the year ended December 31, 2006, with a recognized tax benefit of $3 million. The total expense recognized on our Statements of Income for other stock-based compensation plans was $3 million for the year ended December 31, 2005, with a recognized tax benefit of $1 million. The total expense recognized on our Statements of Income for other stock-based compensation plans was $2 million for the year ended December 31, 2004, with a recognized tax benefit of $1 million. No compensation cost related to other stock-based compensation plans was capitalized.

C. Earnings Per Common Share

Basic earnings per common share are based on the weighted-average number of common shares outstanding. Diluted earnings per share include the effect of the nonvested portion of restricted stock awards and the effect of stock options outstanding.

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

(in millions)	**2006**	2005	2004
Weighted-average common shares - basic	**250.4**	246.6	242.2
Net effect of dilutive stock-based compensation plans	**0.4**	0.4	0.9
Weighted-average shares - fully diluted	**250.8**	247.0	243.1

There were no adjustments to net income or to income from continuing operations between the calculations of basic and fully diluted earnings per common share. ESOP shares that have not been committed to be released to participants' accounts are not considered outstanding for the determination of earnings per common share. The weighted-average shares totaled 2.4 million, 3.0 million and 3.6 million for the years ended December 31, 2006, 2005 and 2004, respectively. There were 1.8 million, 2.9 million and 3.0 million stock options outstanding at December 31, 2006, 2005 and 2004, respectively, which were not included in the weighted-average number of shares for computing the fully diluted earnings per share because they were antidilutive.

D. Accumulated Other Comprehensive Loss

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

	Progress Energy		PEC		PEF	
(in millions)	**2006**	2005	**2006**	2005	**2006**	2005
(Loss) gain on cash flow hedges	**$ (14)**	$ 55	**$ (5)**	$ (3)	**$ (1)**	$ -
Minimum pension liability adjustments	**-**	(160)	**-**	(119)	**-**	-
SFAS No. 158 benefits adjustment	**(39)**	-	**-**	-	**-**	-
Other	**4**	1	**4**	2	**-**	-
Total accumulated other comprehensive loss	**$ (49)**	$ (104)	**$ (1)**	$ (120)	**$ (1)**	$ -

11. PREFERRED STOCK OF SUBSIDIARIES - NOT SUBJECT TO MANDATORY REDEMPTION

All of our preferred stock was issued by our subsidiaries and was not subject to mandatory redemption. At December 31, 2006 and 2005, preferred stock outstanding consisted of the following:

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

12. DEBT AND CREDIT FACILITIES

A. Debt and Credit Facilities

At December 31 our long-term debt consisted of the following (maturities and weighted-average interest rates at December 31, 2006):

(in millions)		**2006**	2005
Progress Energy, Inc.			
Senior unsecured notes, maturing 2010-2031	6.98%	$ **2,600**	$ 4,300
Unamortized fair value hedge gain, net		**(1)**	(3)
Unamortized premium and discount, net		**(18)**	(19)
Current portion of long-term debt		**-**	(404)
Long-term debt, net		**2,581**	3,874
PEC			
First mortgage bonds, maturing 2007-2033	5.76%	**2,200**	2,200
Pollution control obligations, maturing 2017-2024	3.74%	**669**	669
Senior unsecured notes, maturing 2012	6.50%	**500**	500
Medium-term notes, maturing 2008	6.65%	**300**	300
Miscellaneous notes		**22**	22
Unamortized premium and discount, net		**(21)**	(24)
Current portion of long-term debt		**(200)**	-
Long-term debt, net		**3,470**	3,667
PEF			
First mortgage bonds, maturing 2008-2033	5.39%	**1,630**	1,630
Pollution control obligations, maturing 2018-2027	3.66%	**241**	241
Senior unsecured notes, maturing 2008	5.77%	**450**	450
Medium-term notes, maturing 2007-2028	6.77%	**241**	289
Unamortized premium and discount, net		**(5)**	(8)
Current portion of long-term debt		**(89)**	(48)
Long-term debt, net		**2,468**	2,554
Florida Progress Funding Corporation (See Note 23)			
Debt to affiliated trust, maturing 2039	7.10%	**309**	309
Unamortized premium and discount, net		**(38)**	(39)
Long-term debt, net		**271**	270
Progress Capital Holdings, Inc.			
Medium-term notes, maturing 2007-2008	6.59%	**80**	140
Miscellaneous notes		**-**	2
Current portion of long-term debt		**(35)**	(61)
Long-term debt, net		**45**	81
Progress Energy consolidated long-term debt, net		**$ 8,835**	$ 10,446

At December 31, 2005, we classified $397 million, related to the retirement of $800 million in Progress Energy, Inc.

6.75% Senior Notes on March 1, 2006, as long-term debt. Settlement of this obligation was not expected to require the use of working capital in 2006 as we had the intent and ability to refinance this debt on a long-term basis.

On January 13, 2006, Progress Energy issued $300 million of 5.625% Senior Notes due 2016 and $100 million of Series A Floating Rate Senior Notes due 2010, receiving net proceeds of $397 million. These senior notes are unsecured. Interest on the Floating Rate Senior Notes is based on three-month London Inter Bank Offering Rate

(LIBOR) plus 45 basis points and resets quarterly. We used the net proceeds from the sale of these senior notes and a combination of available cash and commercial paper proceeds to retire the $800 million aggregate principal amount of our 6.75% Senior Notes on March 1, 2006. Pending the application of the proceeds described above, we invested the net proceeds in short-term, interest-bearing, investment-grade securities.

On November 27, 2006, Progress Energy redeemed the entire outstanding $350 million principal amount of its 6.05% Senior Notes due April 15, 2007, and the entire outstanding $400 million principal amount of its 5.85% Senior Notes due October 30, 2008, at a make-whole redemption price. The 6.05% Senior Notes were acquired at 100.274 percent of par, or approximately $351 million plus accrued interest, and the 5.85% Senior Notes were acquired at 101.610 percent of par, or approximately $406 million, plus accrued interest. The redemptions were funded with available cash on hand and no additional debt was incurred in connection with the redemptions. On December 6, 2006, Progress Energy repurchased, pursuant to a tender offer, $550 million, or 53.0 percent, of the outstanding aggregate principal amount of its 7.10% Senior Notes due March 1, 2011, at 108.361 percent of par, or $596 million, plus accrued interest. The redemption was funded with available cash on hand and no additional debt was incurred in connection with the redemption. See Note 20 for a discussion of losses on debt redemptions.

At December 31, 2006 and 2005, we had committed lines of credit used to support our commercial paper borrowings. At December 31, 2006 and 2005, we had no outstanding borrowings under our credit facilities. We are required to pay minimal annual commitment fees to maintain our credit facilities.

The following table summarizes our revolving credit agreements (RCAs) and available capacity at December 31, 2006:

(in millions)	Description	Total	Outstanding	Reserved[a]	Available
Progress Energy, Inc.	Five-year (expiring 5/3/11)	$ 1,130	$ -	$ (60)	$ 1,070
PEC	Five-year (expiring 6/28/10)	450	-	-	450
PEF	Five-year (expiring 3/28/10)	450	-	-	450
Total credit facilities		$ 2,030	$ -	$ (60)	$ 1,970

[a] To the extent amounts are reserved for commercial paper or letters of credit outstanding, they are not available for additional borrowings. At December 31, 2006, Progress Energy, Inc. had a total amount of $60 million of letters of credit issued, which were supported by the RCA.

In addition to the committed RCAs at December 31, 2005, we had an $800 million 364-day credit agreement, which was restricted for the retirement of $800 million of 6.75% Senior Notes due March 1, 2006. On March 1, 2006, Progress Energy, Inc. retired $800 million of its 6.75% Senior Notes, thus effectively terminating the 364-day credit agreement.

On May 3, 2006, Progress Energy restructured its existing $1.13 billion five-year RCA with a syndication of financial institutions. The new RCA replaced an existing $1.13 billion five-year facility, which was terminated effective May 3, 2006. The new RCA will continue to be used to provide liquidity support for Progress Energy's issuances of commercial paper and other short-term obligations. The new RCA no longer includes a material adverse change representation for borrowings or a financial covenant for interest coverage. Fees and interest rates under the new RCA will continue to be determined based upon the credit rating of Progress Energy's long-term unsecured senior noncredit-enhanced debt, currently rated as Baa2 by Moody's Investors Service, Inc. (Moody's) and BBB- by S&P.

On May 3, 2006, PEC's five-year $450 million RCA was amended to take advantage of favorable market conditions and reduce the pricing associated with the facility. Fees and interest rates under the RCA will continue to be determined based

upon the credit rating of PEC's long-term unsecured senior noncredit-enhanced debt, currently rated as Baa1 by Moody's and BBB- by S&P.

On May 3, 2006, PEF's five-year $450 million RCA was amended to take advantage of favorable market conditions and reduce the pricing associated with the facility. Fees and interest rates under the RCA will continue to be

determined based upon the credit rating of PEF's long-term unsecured senior noncredit-enhanced debt, currently rated as A3 by Moody's and BBB- by S&P.

We had no commercial paper outstanding or other short-term debt at December 31, 2006. The following table summarizes our outstanding commercial paper and other short-term debt and related weighted-average interest rates at December 31, 2005:

(in millions)		
PEC	4.65%$	73
PEF	4.75%	102
Total	4.71%$	175

The following table presents the aggregate maturities of long-term debt at December 31, 2006:

(in millions)	Progress Energy Consolidated	PEC	PEF
2007	$ 324	$ 200	$ 89
2008	877	300	532
2009	400	400	-
2010	406	6	300
2011	1,000	-	300
Thereafter	6,235	2,785	1,341
Total	$ 9,242	$ 3,691	$ 2,562

B. Covenants and Default Provisions

FINANCIAL COVENANTS

Progress Energy, Inc.'s, PEC's and PEF's credit lines contain various terms and conditions that could affect the ability to borrow under these facilities. All of the credit facilities include a defined maximum total debt to total capital ratio (leverage). At December 31, 2006, the maximum and calculated ratios for the Progress Registrants, pursuant to the terms of the agreements, were as follows:

Company	Maximum Ratio	Actual Ratio[a]
Progress Energy, Inc.	68%	55.4%
PEC	65%	52.3%
PEF	65%	49.4%

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

CROSS-DEFAULT PROVISIONS

Each of these credit agreements contains cross-default provisions for defaults of indebtedness in excess of the following thresholds: $50 million for Progress Energy, Inc. and $35 million each for PEC and PEF. Under these provisions, if the applicable borrower or certain subsidiaries of the borrower fail to pay various debt obligations in excess of their respective cross-default threshold, the lenders could accelerate payment of any outstanding borrowing and terminate their

commitments to the credit facility. Progress Energy, Inc.'s cross-default provision applies only to Progress Energy, Inc. and its significant subsidiaries, as defined in the credit agreement, (i.e., PEC, Florida Progress Corporation (Florida Progress), PEF, Progress Capital Holdings, Inc. and PVI). PEC's and PEF's cross-default provisions apply only to defaults of indebtedness by PEC and its subsidiaries and PEF, respectively, not each other or other affiliates of PEC and PEF.

Additionally, certain of Progress Energy, Inc.'s long-term debt indentures contain cross-default provisions for defaults of indebtedness in excess of amounts ranging from $25 million to $50 million; these provisions apply only to other obligations of Progress Energy, Inc., primarily commercial paper issued by the Parent, not its subsidiaries. In the event that these indenture cross-default provisions are triggered, the debt holders could accelerate payment of approximately $2.6 billion in long-term debt. Certain agreements underlying our indebtedness also limit our ability to incur additional liens or engage in certain types of sale and leaseback transactions.

OTHER RESTRICTIONS

Neither Progress Energy, Inc.'s Articles of Incorporation nor any of its debt obligations contain any restrictions on the payment of dividends, so long as no shares of preferred stock are outstanding. At December 31, 2006, Progress Energy, Inc. had no shares of preferred stock outstanding.

Certain documents restrict the payment of dividends by Progress Energy, Inc.'s subsidiaries as outlined below.

PEC

PEC's mortgage indenture provides that, as long as any first mortgage bonds are outstanding, cash dividends and distributions on its common stock and purchases of its common stock are restricted to aggregate net income available for PEC since December 31, 1948, plus $3 million, less the amount of all preferred stock dividends and distributions, and all common stock purchases, since December 31, 1948. At December 31, 2006, none of PEC's cash dividends or distributions on common stock was restricted.

In addition, PEC's Articles of Incorporation provide that so long as any shares of preferred stock are outstanding, the aggregate amount of cash dividends or distributions on common stock since December 31, 1945, including the amount then proposed to be expended, shall be limited to 75 percent of the aggregate net income available for common stock if common stock equity falls below 25 percent of total capitalization, and to 50 percent if common stock equity falls below 20 percent. PEC's Articles of Incorporation also provide that cash dividends on common stock shall be limited to 75 percent of current year's net income available for dividends if common stock equity falls below 25 percent of total capitalization, and to 50 percent if common stock equity falls below 20 percent. At December 31, 2006, PEC's common stock equity was approximately 49.0 percent of total capitalization. At December 31, 2006, none of PEC's cash dividends or distributions on common stock was restricted.

PEF

PEF's mortgage indenture provides that as long as any first mortgage bonds are outstanding, it will not pay any cash dividends upon its common stock, or make any other distribution to the stockholders, except a payment or distribution out of net income of PEF subsequent to December 31, 1943. At December 31, 2006, none of PEF's cash dividends or distributions on common stock was restricted.

In addition, PEF's Articles of Incorporation provide that so long as any shares of preferred stock are outstanding, no cash dividends or distributions on common stock shall be paid, if the aggregate amount thereof since April 30, 1944, including the amount then proposed to be expended, plus all other charges to retained earnings since April 30, 1944, exceeds all credits to retained earnings since April 30, 1944, plus all amounts credited to capital surplus after April 30, 1944, arising from the donation to PEF of cash or securities or transfers of amounts from retained earnings to capital surplus. PEF's Articles of Incorporation also provide that cash dividends on common stock shall be limited to 75 percent of current year's net income available for dividends if common stock equity falls below 25 percent of total capitalization, and to 50 percent if common stock equity falls below 20 percent. On December 31, 2006, PEF's common stock equity was approximately 51.8 percent of total capitalization. At December 31, 2006, none of PEF's cash dividends or distributions

on common stock was restricted.

C. Collateralized Obligations

PEC's and PEF's first mortgage bonds are collateralized by their respective mortgage indentures. Each mortgage constitutes a first lien on substantially all of the fixed properties of the respective company, subject to certain permitted encumbrances and exceptions. Each mortgage also constitutes a lien on subsequently acquired property. At December 31, 2006, PEC and PEF had a total of $2.869 billion and $1.871 billion, respectively, of first mortgage bonds outstanding, including those related to pollution control obligations. Each mortgage allows the issuance of additional mortgage bonds upon the satisfaction of certain conditions.

D. Guarantees of Subsidiary Debt

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

E. Hedging Activities

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

13. INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

A. Investments

At December 31, 2006 and 2005, we had investments in various debt and equity securities, cost investments, company-owned life insurance and investments held in trust funds as follows:

	Progress Energy		PEC		PEF	
(in millions)	**2006**	2005	**2006**	2005	**2006**	2005
Nuclear decommissioning trust (See Note 5D)	**$ 1,287**	$ 1,133	**$ 735**	$ 640	**$ 552**	$ 493
Investments in equity securities [(a)]	**6**	7	**4**	6	**1**	1
Equity method investments [(b)]	**23**	27	**13**	15	**-**	-
Cost investments [(c)]	**8**	13	**2**	1	**-**	-
Benefit investment trusts [(d)]	**80**	77	**2**	1	**-**	-
Company-owned life insurance [(d)]	**161**	153	**99**	97	**39**	39
Marketable debt securities [(e)]	**71**	191	**50**	191	**-**	-
Total	**$ 1,636**	$ 1,601	**$ 905**	$ 951	**$ 592**	$ 533

[(a)] Certain investments in equity securities that have readily determinable market values, and for which we do not have control, are accounted for as available-for-sale securities at fair value in accordance with SFAS No. 115 (See Note 1). These investments are included in miscellaneous other property and investments in the Consolidated Balance Sheets.

[(b)] Investments in unconsolidated companies are included in the Consolidated Balance Sheets in miscellaneous other property and investments using the equity method of accounting (See Note 1). These investments are primarily in limited liability corporations and limited partnerships, and the earnings from these investments are recorded on a pre-tax basis (See Note 20).

[(c)] Investments stated principally at cost are included in miscellaneous other property and investments in the

within one year or less, generally within 30 days, from the balance sheet date, they are classified as short-term investments.

B. Fair Value of Financial Instruments

Progress Energy

DEBT

The carrying amount of our long-term debt, including current maturities, was $9.159 billion and $10.959 billion at December 31, 2006 and 2005, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was $9.543 billion and $11.491 billion at December 31, 2006 and 2005, respectively.

INVESTMENTS

Certain investments in debt and equity securities that have readily determinable market values, and for which we do not have control, are accounted for as available-for-sale securities at fair value in accordance with SFAS No. 115.

These investments include investments held in trust funds, pursuant to NRC requirements, to fund certain costs of decommissioning nuclear plants (See Note 5D). These nuclear decommissioning trust funds are primarily invested in stocks, bonds and cash equivalents that are classified as available-for-sale. Nuclear decommissioning trust funds are presented on the Consolidated Balance Sheets at amounts that approximate fair value. Fair value is obtained from quoted market prices for the same or similar investments. In addition to the nuclear decommissioning trust funds, we hold other debt and equity investments classified as available-for-sale in miscellaneous other property and investments on the Consolidated Balance Sheets at amounts that approximate fair value. Our available-for-sale securities at December 31, 2006 and 2005 are summarized below. Net nuclear decommissioning trust fund unrealized gains are included in regulatory liabilities (See Note 7A).

2006			
(in millions)	**Book Value**	**Unrealized Gains**	**Estimated Fair Value**
Equity securities	**$ 428**	**$ 324**	**$ 752**
Debt securities	**606**	**13**	**619**
Cash equivalents	**19**	**-**	**19**
Total	**$ 1,053**	**$ 337**	**$ 1,390**

2005			
(in millions)	Book Value	Unrealized Gains	Estimated Fair Value
Equity securities	$ 406	$ 257	$ 663
Debt securities	673	7	680
Cash equivalents	18	-	18
Total	$ 1,097	$ 264	$ 1,361

At December 31, 2006, the fair value of available-for-sale debt securities by contractual maturity was (in millions):

Due in one year or less	$ 28

Consolidated Balance Sheets.

(d) Investments in company-owned life insurance and other benefit plan assets are included in miscellaneous other property and investments in the Consolidated Balance Sheets and approximate fair value due to the short maturity of the instruments.

(e) We actively invest available cash balances in various financial instruments, such as tax-exempt debt securities that have stated maturities of 20 years or more. These instruments provide for a high degree of liquidity through arrangements with banks that provide daily and weekly liquidity and 7-, 28- and 35-day auctions that allow for the redemption of the investment at its face amount plus earned income. As we intend to sell these instruments

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Due after one through five years		116
Due after five through 10 years		196
Due after 10 years		279
Total	$	619

Selected information about our sales of available-for-sale securities during the years ended December 31 is presented below. Realized gains and losses were determined on a specific identification basis.

(in millions)		**2006**		2005		2004
Proceeds	$	**2,547**	$	3,755	$	3,200
Realized gains		**33**		26		55
Realized losses		**24**		31		31

The NRC requires nuclear decommissioning trusts to be managed by third-party investment managers who have a right to sell securities without our authorization. Therefore, we consider available-for-sale securities in our nuclear decommissioning trust funds to be impaired if they are in a loss position. These impairments along with unrealized gains are included in our regulatory liabilities (See Note 7A) and have no earnings impact. Some of our benefit investment trusts are also managed by third-party investment managers who have the right to sell securities without our authorization. Losses at December 31, 2006 and 2005 for investments in these trusts were not material. Other securities are evaluated on an individual basis to determine if a decline in fair value below the carrying value is other-than-temporary (See Note 1D). At December 31, 2006 and 2005 our other securities had no investments in a continuous loss position for greater than 12 months.

PEC

DEBT

The carrying amount of PEC's long-term debt, including current maturities, was $3.670 billion and $3.667 billion at December 31, 2006 and 2005, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was $3.732 billion and $3.789 billion at December 31, 2006 and 2005, respectively.

INVESTMENTS

External trust funds have been established to fund certain costs of nuclear decommissioning (See Note 5D). These nuclear decommissioning trust funds are invested in stocks, bonds and cash equivalents and are classified as available-for-sale. Nuclear decommissioning trust funds are presented on the PEC Consolidated Balance Sheets at amounts that approximate fair value. Fair value is obtained from quoted market prices for the same or similar investments. In addition to the nuclear decommissioning trust fund, PEC holds other debt and equity investments classified as available-for-sale in miscellaneous other property and investments on the PEC Consolidated Balance Sheets at amounts that approximate fair value. PEC's available-for-sale securities at December 31, 2006 and 2005 are summarized below. Net nuclear decommissioning trust fund unrealized gains are included in regulatory liabilities (See Note 7A).

2006 **(in millions)**		**Book Value**		**Unrealized Gains**		**Estimated Fair Value**
Equity securities	**$**	**232**	**$**	**170**	**$**	**402**
Debt securities		**364**		**7**		**371**
Cash equivalents		**9**		**-**		**9**
Total	**$**	**605**	**$**	**177**	**$**	**782**

2005 (in millions)		Book Value		Unrealized Gains		Estimated Fair Value
Equity securities	$	218	$	141	$	359

Debt securities	461	4	465
Cash equivalents	10	-	10
Total	$ 689	$ 145	$ 834

At December 31, 2006, the fair value of available-for-sale debt securities by contractual maturity was (in millions):

Due in one year or less	$	18
Due after one through five years		80
Due after five through 10 years		76
Due after 10 years		197
Total	$	371

Selected information about PEC's sales of available-for-sale securities during the years ended December 31 is presented below. Realized gains and losses were determined on a specific identification basis.

(in millions)		2006		2005		2004
Proceeds	$	**995**	$	1,678	$	2,584
Realized gains		**21**		13		24
Realized losses		**14**		16		25

Available-for-sale securities in PEC's nuclear decommissioning trust funds are impaired if they are in a loss position as described above. Other securities are evaluated on an individual basis to determine if a decline in fair value below the carrying value is other-than-temporary (See Note 1D). At December 31, 2006 and 2005 PEC's other securities had no investments in a continuous loss position for greater than 12 months.

PEF

DEBT

The carrying amount of PEF's long-term debt, including current maturities, was $2.557 billion and $2.602 billion at December 31, 2006 and 2005, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was $2.567 and $2.635 billion at December 31, 2006 and 2005, respectively.

INVESTMENTS

External trust funds have been established to fund certain costs of nuclear decommissioning (See Note 5D). These nuclear decommissioning trust funds are invested in stocks, bonds and cash equivalents and are classified as available-for-sale. Nuclear decommissioning trust funds are presented on the Balance Sheets at amounts that approximate fair value. Fair value is obtained from quoted market prices for the same or similar investments. PEF's available-for-sale securities at December 31, 2006 and 2005 are summarized below. Net nuclear decommissioning trust fund unrealized gains are included in regulatory liabilities (See Note 7A).

2006						
(in millions)		**Book Value**		**Unrealized Gains**		**Estimated Fair Value**
Equity securities	**$**	**196**	**$**	**154**	**$**	**350**
Debt securities		**184**		**6**		**190**
Cash equivalents		**9**		**-**		**9**
Total	**$**	**389**	**$**	**160**	**$**	**549**

2005			
(in millions)	Book Value	Unrealized Gains	Estimated Fair Value

Equity securities	$ 188	$ 116	$ 304
Debt securities	180	3	183
Cash equivalents	5	-	5
Total	$ 373	$ 119	$ 492

At December 31, 2006, the fair value of available-for-sale debt securities by contractual maturity was (in millions):

Due in one year or less	$	3
Due after one through five years		26
Due after five through 10 years		100
Due after 10 years		61
Total	$	190

Selected information about PEF's sales of available-for-sale securities for the years ended December 31 is presented below. Realized gains and losses were determined on a specific identification basis.

(in millions)	**2006**	2005	2004
Proceeds	**$ 509**	$ 330	$ 529
Realized gains	**12**	13	30
Realized losses	**9**	13	5

Available-for-sale securities in PEF's nuclear decommissioning trust funds are impaired if they are in a loss position as described above. Other securities are evaluated on an individual basis to determine if a decline in fair value below the carrying value is other-than-temporary (See Note 1D). At December 31, 2006 and 2005 PEF's other securities had no investments in a loss position.

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14. INCOME TAXES

We provide deferred income taxes for temporary differences. These occur when there are differences between book and tax carrying amounts of assets and liabilities. Investment tax credits related to regulated operations have been deferred and are being amortized over the estimated service life of the related properties. To the extent that the establishment of deferred income taxes under SFAS No. 109 is different from the recovery of taxes by the Utilities through the ratemaking process, the differences are deferred pursuant to SFAS No. 71. A regulatory asset or liability has been recognized for the impact of tax expenses or benefits that are recovered or refunded in different periods by the Utilities pursuant to rate orders.

Progress Energy

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

(in millions)	2006	2005
Deferred income tax assets		
Asset retirement obligation liability	**$ 141**	$ 155
Compensation accruals	**99**	99
Deferred revenue	**28**	55
Derivative instruments	**42**	-
Environmental remediation liability	**36**	27
Income taxes refundable through future rates	**216**	234
Investments	**5**	-
SFAS No. 158, postretirement and pension benefits	**351**	274
Unbilled revenue	**36**	30
Other	**125**	108
Federal income tax credit carry forward	**851**	957
State net operating loss carry forward (net of federal expense)	**54**	44
Valuation allowance	**(71)**	(39)
Total deferred income tax assets	**1,913**	1,944
Deferred income tax liabilities		
Accumulated depreciation and property cost differences	**(1,349)**	(1,396)
Deferred fuel recovery	**(60)**	(89)
Deferred storm costs	**(51)**	(94)
Derivative instruments	**-**	(32)
Income taxes recoverable through future rates	**(436)**	(202)
Investments	**-**	(35)
Other	**(70)**	(64)
Total deferred income tax liabilities	**(1,966)**	(1,912)
Total net deferred income tax (liabilities) assets	**$ (53)**	$ 32

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

(in millions)	2006	2005
Current deferred income tax assets	**$ 159**	$ 37
Noncurrent deferred income tax assets, included in other assets and deferred debits	**19**	79
Current deferred income tax liabilities, included in other current liabilities	**(1)**	(1)
Noncurrent deferred income tax liabilities, included in noncurrent income tax liabilities	**(230)**	(83)
Total net deferred income tax (liabilities) assets	**$ (53)**	$ 32

At December 31, 2006 and 2005, we had recorded $76 million and $115 million, respectively, related to probable tax liabilities associated with prior filings, excluding accrued interest and penalties, which were included in noncurrent income tax liabilities on the Consolidated Balance Sheets.

At December 31, 2006, the federal income tax credit carry forward includes $850 million of alternative minimum tax credits that do not expire and $1 million of general business credits that will expire during the period 2023 through 2025.

At December 31, 2006, we had gross state net operating loss carry forwards of $1.1 billion that will expire during the period 2009 through 2026.

Valuation allowances have been established due to the uncertainty of realizing certain future state tax benefits. We established additional valuation allowances of $32 million during 2006. We believe it is more likely than not that the results of future operations will generate sufficient taxable income to allow for the utilization of the remaining deferred tax assets.

We establish accruals for certain tax contingencies when, despite our belief that our tax return positions are fully supported, we believe that certain positions may be challenged and that it is probable our positions may not be fully sustained. We are under continuous examination by the IRS and other tax authorities, and we account for potential losses of tax benefits in accordance with SFAS No. 5. At December 31, 2006 and 2005, we had recorded $27 million and $60 million, respectively, of tax contingency reserves, excluding accrued interest and penalties, which were included in taxes accrued on the Consolidated Balance Sheets.

Considering all tax contingency reserves, we do not expect the resolution of these matters to have a material impact on our financial position or results of operations. The tax contingency reserves relate primarily to capitalization and basis issues.

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

	2006	2005	2004
Effective income tax rate	**28.1%**	(5.9)%	9.3%
State income taxes, net of federal benefit	**(6.5)**	(3.7)	(7.7)
Minority interest	**0.2**	(2.3)	(1.2)
Federal tax credits	**11.3**	43.7	30.2
Investment tax credit amortization	**1.7**	2.0	1.9
Employee stock ownership plan dividends	**1.7**	1.9	2.1

Domestic manufacturing deduction	**0.5**	1.3	-
Other differences, net	**(2.0)**	(2.0)	0.4
Statutory federal income tax rate	**35.0%**	35.0%	35.0%

Our effective income tax rate is favorably impacted by federal tax credits resulting from synthetic fuels production.

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

(in millions)	2006	2005	2004
Current - federal	**$ 377**	$ 382	$ 249
- state	**69**	78	71
Deferred - federal	**(136)**	(163)	(33)
- state	**(26)**	(36)	10
Valuation allowance	**14**	-	-
State net operating loss carry forward	**(3)**	(3)	(1)
Synthetic fuels tax credit	**(79)**	(282)	(215)
Investment tax credit	**(12)**	(13)	(14)
Total income tax expense (benefit)	**$ 204**	$ (37)	$ 67

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

- Less than $1 million of deferred tax expense related to the cumulative effect of changes in accounting principle recorded net of tax during 2005. There was no cumulative effect of changes in accounting principle recorded during 2006 or 2004.

- Taxes related to discontinued operations recorded net of tax for 2006, 2005 and 2004, which are presented separately in Notes 3A through 3G.

- Taxes related to other comprehensive income recorded net of tax for 2006, 2005 and 2004, which are presented separately in the Consolidated Statements of Comprehensive Income.

- Current tax benefit of $3 million related to excess tax deductions resulting from vesting of restricted stock, interim period vesting of stock-settled PSSP awards and exercises of nonqualified stock options, which was recorded in common stock during 2006. Current tax benefit of $2 million related to excess tax deductions resulting from vesting of restricted stock and exercises of nonqualified stock options, which was recorded in common stock during 2005. Less than $1 million was recorded in common stock for excess tax deductions during 2004.

Through our subsidiaries, we are a majority owner in five entities and a minority owner in one entity that own facilities that produce synthetic fuels as defined under the Code. The production and sale of the synthetic fuels from these facilities qualifies for tax credits under Section 29/45K, if certain requirements are satisfied.

PEC

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

(in millions)		2006		2005
Deferred income tax assets:				
Asset retirement obligation liability	$	**132**	$	131
Compensation accruals		**47**		46
Deferred revenue		**28**		55
Income taxes refundable through future rates		**68**		54
SFAS No. 158, postretirement and pension benefits		**200**		155
Other		**37**		49
Federal income tax credit carry forward		**1**		20
Total deferred income tax assets		**513**		510
Deferred income tax liabilities:				
Accumulated depreciation and property cost differences		**(930)**		(952)
Deferred fuel recovery		**(55)**		(67)
Income taxes recoverable through future rates		**(317)**		(129)
Investments		**(10)**		(61)
Other		**(27)**		(27)
Total deferred income tax liabilities		**(1,339)**		(1,236)
Total net deferred income tax liabilities	$	**(826)**	$	(726)

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

(in millions)		2006		2005
Current deferred income tax assets, included in prepayments and other current assets	$	**34**	$	-
Current deferred income tax liabilities, included in other current liabilities		-		(4)
Noncurrent deferred income tax liabilities, included in noncurrent income tax liabilities		**(860)**		(722)
Total net deferred income tax liabilities	$	**(826)**	$	(726)

At December 31, 2006 and 2005, PEC had recorded $49 million and $92 million, respectively, related to probable tax liabilities associated with prior filings, excluding accrued interest and penalties, which were included in noncurrent income tax liabilities on the Consolidated Balance Sheets.

At December 31, 2006, the federal income tax credit carry forward includes $1 million of general business credits that will expire during the period 2023 through 2025.

At December 31, 2006 and 2005, PEC had recorded $5 million and $2 million, respectively, of tax contingency reserves, excluding accrued interest and penalties, which were included in taxes accrued on the Consolidated Balance Sheets.

Considering all tax contingency reserves, PEC does not expect the resolution of these matters to have a material impact on its financial position or results of operations. The tax contingency reserves relate primarily to capitalization and basis issues.

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

	2006	2005	2004
Effective income tax rate	**36.7%**	32.7%	34.1%
State income taxes, net of federal benefit	**(2.3)**	(2.1)	(2.9)
Investment tax credit amortization	**0.8**	1.1	1.1
Domestic manufacturing deduction	**0.6**	0.7	-
Progress Energy tax benefit allocation	**-**	2.9	3.0
Other differences, net	**(0.8)**	(0.3)	(0.3)
Statutory federal income tax rate	**35.0%**	35.0%	35.0%

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

(in millions)	2006	2005	2004
Current - federal	**$ 285**	$ 343	$ 232
- state	**39**	45	33
Deferred - federal	**(42)**	(120)	(18)
- state	**(11)**	(21)	(1)
Investment tax credit	**(6)**	(8)	(7)
Total income tax expense	**$ 265**	$ 239	$ 239

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

- Less than $1 million of deferred tax expense related to the cumulative effect of changes in accounting principle recorded net of tax during 2005. There was no cumulative effect of changes in accounting principle recorded during 2006 or 2004.

- Taxes related to other comprehensive income recorded net of tax for 2006, 2005 and 2004, which are presented separately in the Consolidated Statements of Comprehensive Income.

- Current tax benefit of $1 million related to excess tax deductions resulting from vesting of restricted stock, interim period vesting of stock-settled PSSP awards and exercises of nonqualified stock options, which was recorded in common stock during 2006. Current tax benefit of $1 million related to excess tax deductions resulting from vesting of restricted stock and exercises of nonqualified stock options, which was recorded in common stock during 2005. Less than $1 million was recorded in common stock for excess tax deductions during 2004.

PEC and each of its wholly owned subsidiaries have entered into the Tax Agreement with Progress Energy (See Note 1D). PEC's intercompany tax payable was approximately $51 million and $74 million at December 31, 2006 and 2005, respectively.

PEF

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

(in millions)	2006	2005
Deferred income tax assets		
Asset retirement obligation liability	**$ 9**	$ 3
Derivative instruments	**30**	-
Environmental remediation liability	**24**	15
Income taxes refundable through future rates	**95**	123
SFAS No. 158, postretirement and pension benefits	**150**	85
Unbilled revenue	**36**	30
Other	**61**	53
Total deferred income tax assets	**405**	309
Deferred income tax liabilities		
Accumulated depreciation and property cost differences	**(429)**	(401)
Deferred fuel recovery	**(5)**	(21)
Deferred storm costs	**(45)**	(87)
Derivative instruments	**-**	(45)
Income taxes recoverable through future rates	**(119)**	(28)
Investments	**(61)**	(45)
Prepaid pension costs	**(67)**	(61)
Other	**(33)**	(25)
Total deferred income tax liabilities	**(759)**	(713)
Total net deferred income tax liabilities	**$ (354)**	$ (404)

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

(in millions)	2006	2005
Current deferred income tax assets	**$ 86**	$ 12
Noncurrent deferred income tax liabilities, included in noncurrent income tax liabilities	**(440)**	(416)
Total net deferred income tax liabilities	**$ (354)**	$ (404)

At December 31, 2006 and 2005, PEF had recorded $26 million and $17 million, respectively, related to probable tax liabilities associated with prior filings, excluding accrued interest and penalties, which were included in noncurrent income tax liabilities on the Balance Sheets.

At December 31, 2006 and 2005, respectively, PEF had recorded $5 million and $7 million of tax contingency reserves, excluding accrued interest and penalties, which were included in other current liabilities on the Balance Sheets.

Considering all tax contingency reserves, PEF does not expect the resolution of these matters to have a material impact on its financial position or results of operations. The tax contingency reserves relate primarily to capitalization and basis issues.

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

	2006	2005	2004
Effective income tax rate	**37.0%**	31.8%	34.2%
State income taxes, net of federal benefit	**(3.6)**	(3.3)	(3.5)
Investment tax credit amortization	**1.2**	1.4	1.2
Domestic manufacturing deduction	**0.3**	0.9	-
Progress Energy tax allocation benefit	**-**	3.2	2.5
Other differences, net	**0.1**	1.0	0.6
Statutory federal income tax rate	**35.0%**	35.0%	35.0%

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

(in millions)	**2006**	2005	2004
Current - federal	**$ 207**	$ 146	$ 55
- state	**34**	25	9
Deferred - federal	**(36)**	(39)	98
- state	**(6)**	(6)	18
Investment tax credit	**(6)**	(5)	(6)
Total income tax expense	**$ 193**	$ 121	$ 174

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

- Less than $1 million of deferred tax expense related to the cumulative effect of changes in accounting principle recorded net of tax during 2005. There was no cumulative effect of changes in accounting principle recorded during 2006 or 2004.
- Taxes related to other comprehensive income recorded net of tax for 2006, 2005 and 2004, which are presented separately in the Statements of Comprehensive Income.
- Less than $1 million of current tax benefit related to excess tax deductions resulting from vesting of restricted stock and exercises of nonqualified stock options, which was recorded in common stock during 2006, 2005 and 2004.

PEF has entered into the Tax Agreement with Progress Energy (See Note 1D). PEF's intercompany tax receivable was approximately $47 million at December 31, 2006. PEF's intercompany tax payable was approximately $7 million at December 31, 2005.

15. CONTINGENT VALUE OBLIGATIONS

In connection with the acquisition of Florida Progress during 2000, the Parent issued 98.6 million contingent value obligations (CVOs). Each CVO represents the right of the holder to receive contingent payments based on the performance of four synthetic fuels facilities purchased by subsidiaries of Florida Progress in October 1999. The payments, if any, would be based on the net after-tax cash flows the facilities generate. The CVO liability is adjusted to reflect market price fluctuations. The unrealized loss/gain recognized due to these market fluctuations is recorded in other, net on the Consolidated Statements of Income (See Note 20). The liability, included in other liabilities and deferred credits on the Consolidated Balance Sheets, at December 31, 2006 and 2005, was $32 million and $7 million,

respectively.

16. BENEFIT PLANS

A. Postretirement Benefits

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

See Note 2 for information related to the implementation of SFAS No. 158 as of December 31, 2006.

COSTS OF BENEFIT PLANS

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

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

The components of the net periodic benefit cost for the years ended December 31 were:

Progress Energy

	Pension Benefits			Other Postretirement Benefits		
(in millions)	**2006**	2005	2004	**2006**	2005	2004
Service cost	**$ 45**	$ 47	$ 54	**$ 9**	$ 9	$ 12
Interest cost	**117**	117	110	**33**	33	31
Expected return on plan assets	**(148)**	(147)	(155)	**(6)**	(5)	(5)
Amortization of actuarial loss[a]	**18**	21	6	**4**	6	4
Other amortization, net [a]	**-**	-	(1)	**5**	5	3
Net periodic cost	**$ 32**	$ 38	$ 14	**$ 45**	$ 48	$ 45

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

In addition to the net periodic cost reflected above, in 2005, we recorded costs for special termination benefits related to a voluntary enhanced retirement program of $123 million for pension benefits and $19 million for other postretirement benefits.

No amounts related to our OPEB plans were recognized as a component of other comprehensive income (OCI) for the years ended December 31, 2006, 2005 and 2004. Pre-tax amounts related to our pension plans recognized as a component of OCI for the years ended December 31, 2006, 2005 and 2004 were net actuarial gains (losses) of $78 million, $(41) million and $(202) million, respectively.

PEC

(in millions)		Pension Benefits 2006	2005	2004	Other Postretirement Benefits 2006	2005	2004
Service cost	$	**22** $	22 $	24 $	**4** $	4 $	6
Interest cost		**52**	53	52	**17**	17	15
Expected return on plan assets		**(59)**	(62)	(69)	**(4)**	(4)	(4)
Amortization of actuarial loss		**11**	10	1	**2**	5	2
Other amortization, net		**1**	1	-	**1**	1	1
Net periodic cost	$	**27** $	24 $	8 $	**20** $	23 $	20

In addition to the net periodic cost reflected above, in 2005, PEC recorded costs for special termination benefits related to a voluntary enhanced retirement program of $21 million for pension benefits and $8 million for other postretirement benefits.

No amounts related to PEC's OPEB plan were recognized as a component of OCI for the years ended December 31, 2006, 2005 and 2004. Pre-tax amounts related to PEC's pension plans recognized as a component of OCI for the years ended December 31, 2006, 2005 and 2004, were net actuarial gains (losses) of $59 million, $(19) million and $(174) million, respectively.

PEF

(in millions)		Pension Benefits 2006	2005	2004	Other Postretirement Benefits 2006	2005	2004
Service cost	$	**16** $	16 $	21 $	**3** $	3 $	4
Interest cost		**49**	48	43	**14**	13	13
Expected return on plan assets		**(78)**	(73)	(73)	**(1)**	(1)	(1)
Amortization of actuarial loss		**3**	8	2	**1**	2	1
Other amortization, net		**(1)**	(1)	(1)	**4**	4	4
Net periodic (benefit) cost	$	**(11)** $	(2) $	(8) $	**21** $	21 $	21

In addition to the net periodic cost and benefit reflected above, in 2005 PEF recorded costs for special termination benefits related to a voluntary enhanced retirement program of $84 million for pension benefits and $7 million for other postretirement benefits.

No amounts related to PEF's OPEB plans were recognized as a component of OCI for the years ended December 31, 2006, 2005 and 2004. No amounts related to PEF's pension plans were recognized as a component of OCI for the years ended December 31, 2006 and 2005. For the year ended December 31, 2004, a pre-tax net actuarial gain of $6 million was recognized as a component of OCI.

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

	Pension Benefits 2006	2005	2004	Other Postretirement Benefits 2006	2005	2004
Discount rate	**5.65%**	5.70%	6.30%	**5.65%**	5.70%	6.30%
Rate of increase in future						

compensation						
Bargaining	**3.50%**	3.50%	3.50%	-	-	-
Supplementary plans	**5.25%**	5.25%	5.00%	-	-	-
Expected long-term rate of return on plan assets	**9.00%**	9.00%	9.25%	**8.30%**	8.25%	8.50%

The weighted-average actuarial assumptions used by PEC and PEF were not materially different from the assumptions above, as applicable, except that the expected long-term rate of return on PEF's OPEB plan assets was 5.0% for all years presented.

The expected long-term rates of return on plan assets were determined by considering long-term historical returns for the plans and long-term projected returns based on the plans' target asset allocation. For all pension plan assets and a substantial portion of OPEB plans assets, those benchmarks support an expected long-term rate of return between 9.0% and 9.5%. The Progress Registrants have chosen to use an expected long-term rate of 9.0%, the low end of the range, beginning in 2005.

BENEFIT OBLIGATIONS AND ACCRUED COSTS

Reconciliations of the changes in the Progress Registrants' benefit obligations and the funded status as of December 31, 2006 and 2005 are presented in the tables below, with each table followed by related supplementary information.

Progress Energy

	Pension Benefits		Other Postretirement Benefits	
(in millions)	**2006**	2005	**2006**	2005
Projected benefit obligation at January 1	**$ 2,164**	$ 1,961	**$ 650**	$ 538
Service cost	**45**	47	**9**	9
Interest cost	**117**	117	**33**	33
Benefit payments	**(174)**	(182)	**(29)**	(33)
Plan amendment	**18**	-	**(4)**	-
Special termination benefits	**-**	123	**-**	19
Actuarial (gain) loss	**(47)**	98	**(31)**	84
Obligation at December 31	**2,123**	2,164	**628**	650
Fair value of plan assets at December 31	**1,836**	1,770	**74**	76
Funded status	**$ (287)**	$ (394)	**$ (554)**	$ (574)

All defined benefit pension plans had accumulated benefit obligations in excess of plan assets, with projected benefit obligations totaling $2.123 billion and $2.164 billion at December 31, 2006 and 2005, respectively. Those plans had accumulated benefit obligations totaling $2.083 billion and $2.117 billion at December 31, 2006 and 2005, respectively, and plan assets of $1.836 billion and $1.770 billion at December 31, 2006 and 2005, respectively.

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

	Pension Benefits		Other Postretirement Benefits	
(in millions)	**2006**	2005	**2006**	2005
Current liabilities	**$ 14**	$ -	**$ 1**	$ -
Noncurrent liabilities	**273**	347	**553**	390

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

(in millions)	Pension Benefits 2006	Pension Benefits 2005	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Recognized in accumulated other comprehensive loss				
Net actuarial loss	$ 49	$ 260	$ 7	$ -
Other, net	5	-	1	-
Recognized in regulatory assets, net				
Net actuarial loss (gain)	215	83	108	(19)
Other, net	22	-	28	24
Recognized as an intangible asset				
Prior service cost	-	23	-	-
Not recognized in the Consolidated Balance Sheets				
Net actuarial loss	-	47	-	170
Other, net	-	-	-	14
Total not yet recognized as a component of net periodic cost(a)	$ 291	$ 413	$ 144	$ 189

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

The following table presents the amounts we expect to recognize as components of net periodic cost in 2007.

(in millions)	Pension Benefits	Other Postretirement Benefits
Amortization of actuarial loss [a]	$ 15	$ 6
Amortization of other, net[a]	2	5

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

PEC

(in millions)	Pension Benefits 2006	Pension Benefits 2005	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Projected benefit obligation at January 1	$ 969	$ 928	$ 333	$ 262
Service cost	22	22	4	4
Interest cost	52	53	17	17
Plan amendment	9	-	-	-
Benefit payments	(83)	(94)	(11)	(14)
Actuarial (gain) loss	(17)	39	(13)	56
Special termination benefits	-	21	-	8
Obligation at December 31	952	969	330	333
Fair value of plan assets at December 31	741	731	45	49
Funded status	$ (211)	$ (238)	$ (285)	$ (284)

All defined benefit pension plans had accumulated benefit obligations in excess of plan assets, with projected benefit obligations totaling $952 million and $969 million at December 31, 2006 and 2005, respectively. Those plans had

accumulated benefit obligations totaling $946 million and $963 million at December 31, 2006 and 2005, respectively, and plan assets of $741 million and $731 million at December 31, 2006 and 2005, respectively.

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

	Pension Benefits		Other Postretirement Benefits	
(in millions)	**2006**	2005	**2006**	2005
Current liabilities	**$ 2**	$ -	**$ -**	$ -
Noncurrent liabilities	**209**	232	**285**	189

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

	Pension Benefits		Other Postretirement Benefits	
(in millions)	**2006**	2005	**2006**	2005
Recognized in accumulated other comprehensive loss				
Net actuarial loss	**$ -**	$ 195	**$ -**	$ -
Recognized as an intangible asset				
Prior service cost	**-**	17	**-**	-
Recognized in regulatory assets				
Net actuarial loss	**142**	-	**69**	-
Other, net	**25**	-	**7**	-
Not recognized in the Consolidated Balance Sheets				
Net actuarial loss	**-**	6	**-**	87
Other, net	**-**	-	**-**	8
Total not yet recognized as a component of net periodic cost	**$ 167**	$ 218	**$ 76**	$ 95

The following table presents the amounts PEC expects to recognize as components of net periodic cost in 2007.

(in millions)	Pension Benefits	Other Postretirement Benefits
Amortization of actuarial loss	**$ 11**	**$ 4**
Amortization of other, net	**2**	**1**

PEF

	Pension Benefits		Other Postretirement Benefits	
(in millions)	**2006**	2005	**2006**	2005
Projected benefit obligation at January 1	**$ 896**	$ 767	**$ 259**	$ 232
Service cost	**16**	16	**3**	3
Interest cost	**49**	48	**14**	13
Plan amendment	**8**	-	**(4)**	-
Benefit payments	**(69)**	(61)	**(17)**	(18)
Special termination benefits	**-**	85	**-**	7
Actuarial (gain) loss	**(20)**	41	**(9)**	22
Obligation at December 31	**880**	896	**246**	259
Fair value of plan assets at December 31	**952**	895	**24**	22
Funded status	**$ 72**	$ (1)	**$ (222)**	$ (237)

The defined benefit pension plans with accumulated benefit obligations in excess of plan assets had projected benefit obligations totaling $342 million and $341 million at December 31, 2006 and 2005, respectively. Those plans had accumulated benefit obligations totaling $311 million and $306 million at December 31, 2006 and 2005,

respectively, and plan assets of $240 million and $217 million at December 31, 2006 and 2005, respectively. The total accumulated benefit obligation for pension plans was $849 million and $860 million at December 31, 2006 and 2005, respectively.

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

	Pension Benefits		Other Postretirement Benefits	
(in millions)	**2006**	2005	**2006**	2005
Noncurrent assets	**$ 174**	$ 200	**$ -**	$ -
Current liabilities	**3**	-	**-**	-
Noncurrent liabilities	**99**	89	**222**	159

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

	Pension Benefits		Other Postretirement Benefits	
(in millions)	**2006**	2005	**2006**	2005
Recognized as an intangible asset				
Prior service cost	**$ -**	$ 1	**$ -**	$ -
Recognized in regulatory assets, net				
Net actuarial loss	**72**	7	**39**	-
Other, net	**(2)**	-	**21**	-
Not recognized in the Balance Sheets				
Net actuarial loss	**-**	125	**-**	49
Other, net	**-**	(13)	**-**	29
Total not yet recognized as a component of net periodic cost	**$ 70**	$ 120	**$ 60**	$ 78

The following table presents the amounts PEF expects to recognize as components of net periodic cost in 2007.

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

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

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	**2006**	2005
Discount rate	**5.95%**	5.65%	**5.95%**	5.65%
Rate of increase in future compensation				
Bargaining	**4.25%**	3.50%	**-**	-
Supplementary plans	**5.25%**	5.25%	**-**	-
Initial medical cost trend rate for pre-Medicare Act benefits	**-**	-	**9.00%**	8.25%
Initial medical cost trend rate for post-Medicare Act benefits	**-**	-	**9.00%**	8.25%
Ultimate medical cost trend rate	**-**	-	**5.00%**	5.00%
Year ultimate medical cost trend rate is achieved	**-**	-	**2014**	2013

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

Our primary defined benefit retirement plan for nonbargaining employees is a "cash balance" pension plan as defined in EITF Issue No. 03-4, "Determining the Classification and Benefit Attribution Method for a 'Cash Balance' Pension Plan." Therefore, effective December 31, 2003, we began to use the traditional unit credit method for purposes of measuring the benefit obligation of this plan. Under the traditional unit credit method, no assumptions are included about future changes in compensation, and the accumulated benefit obligation and projected benefit obligation are the same.

MEDICAL COST TREND RATE SENSITIVITY

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

(in millions)	Progress Energy	PEC	PEF
1 percent increase in medical cost trend rate			
Effect on total of service and interest cost	$ 2	$ 1	$ 1
Effect on postretirement benefit obligation	29	15	11
1 percent decrease in medical cost trend rate			
Effect on total of service and interest cost	(1)	(1)	(1)
Effect on postretirement benefit obligation	(22)	(12)	(9)

ASSETS OF BENEFIT PLANS

In the plan asset reconciliation tables that follow, substantially all employer contributions represent benefit payments made directly from the Progress Registrants' assets. The OPEB benefit payments presented in the plan asset reconciliation tables that follow represent the cost after participant contributions. Participant contributions represent approximately 20 percent of gross benefit payments for Progress Energy, 30 percent for PEC and 10 percent for PEF. The OPEB benefits payments for 2006 are also reduced by prescription drug-related federal subsidies received, which totaled $2 million for us, $1 million for PEC and $1 million for PEF.

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

Progress Energy	Pension Benefits		Other Postretirement Benefits	
(in millions)	**2006**	2005	**2006**	2005
Fair value of plan assets at January 1	**$ 1,770**	$ 1,774	**$ 76**	$ 70
Actual return on plan assets	**222**	170	**8**	5
Benefit payments	**(174)**	(182)	**(29)**	(33)
Employer contributions	**18**	8	**19**	34
Fair value of plan assets at December 31	**$ 1,836**	$ 1,770	**$ 74**	$ 76

PEC	Pension Benefits		Other Postretirement Benefits	
(in millions)	**2006**	2005	**2006**	2005
Fair value of plan assets at January 1	**$ 731**	$ 753	**$ 49**	$ 45
Actual return on plan assets	**91**	71	**6**	4
Benefit payments	**(83)**	(94)	**(11)**	(14)
Employer contributions	**2**	1	**1**	14
Fair value of plan assets at December 31	**$ 741**	$ 731	**$ 45**	$ 49

PEF		Pension Benefits		Other Postretirement Benefits	
(in millions)		**2006**	2005	**2006**	2005
Fair value of plan assets at January 1	$	**895**	$ 868	$ **22**	$ 20
Actual return on plan assets		**114**	85	**1**	-
Benefit payments		**(69)**	(61)	**(17)**	(18)
Employer contributions		**12**	3	**18**	20
Fair value of plan assets at December 31	$	**952**	$ 895	$ **24**	$ 22

The asset allocation for the benefit plans at the end of 2006 and 2005 and the target allocation for the plans, by asset category, are presented in the following tables. The pension benefit plan allocations and targets are consistent for all Progress Registrants.

	Pension Benefits		
	Target Allocations	Percentage of Plan Assets at Year End	
Asset Category	2007	**2006**	2005
Equity - domestic	40%	**44%**	44%
Equity - international	15%	**23%**	22%
Debt - domestic	20%	**12%**	13%
Debt - international	10%	**9%**	8%
Other	15%	**12%**	13%
Total	100%	**100%**	100%

	Other Postretirement Benefits		
Progress Energy	Target Allocations	Percentage of Plan Assets at Year End	
Asset Category	2007	**2006**	2005
Equity - domestic	27%	**30%**	32%
Equity - international	10%	**15%**	16%
Debt - domestic	46%	**40%**	37%
Debt - international	7%	**7%**	6%
Other	10%	**8%**	9%
Total	100%	**100%**	100%

PEC	Target Allocations	Percentage of Plan Assets at Year End	
Asset Category	2007	**2006**	2005
Equity - domestic	40%	**44%**	44%
Equity - international	15%	**23%**	22%
Debt - domestic	20%	**12%**	13%
Debt - international	10%	**9%**	8%
Other	15%	**12%**	13%
Total	100%	**100%**	100%

Target Percentage of Plan Assets

PEF	Allocations	at Year End	
Asset Category	2007	**2006**	2005
Debt - domestic	100%	**100%**	100%

For pension plan assets and a substantial portion of OPEB plan assets, the Progress Registrants set target allocations among asset classes to provide broad diversification to protect against large investment losses and excessive

volatility, while recognizing the importance of offsetting the impacts of benefit cost escalation. In addition, external investment managers who have complementary investment philosophies and approaches are employed to manage the assets. Tactical shifts (plus or minus five percent) in asset allocation from the target allocations are made based on the near-term view of the risk and return tradeoffs of the asset classes.

CONTRIBUTION AND BENEFIT PAYMENT EXPECTATIONS

In 2007, we expect to make $60 million of contributions directly to pension plan assets and $1 million of discretionary contributions directly to the OPEB plan assets. The expected benefit payments for the pension benefit plan for 2007 through 2011 and in total for 2012 through 2016, in millions, are approximately $143, $147, $151, $154, $154 and $838, respectively. The expected benefit payments for the OPEB plan for 2007 through 2011 and in total for 2012 through 2016, in millions, are approximately $41, $45, $48, $51, $53 and $284, respectively. The expected benefit payments include benefit payments directly from plan assets and benefit payments directly from our assets. The benefit payment amounts reflect our net cost after any participant contributions and do not reflect reductions for expected prescription drug-related federal subsidies. The expected federal subsidies for 2007 through 2011 and in total for 2012 through 2016, in millions, are approximately $3, $4, $4, $5, $5 and $38, respectively.

In 2007, PEC expects to make $35 million in contributions directly to pension plan assets. The expected benefit payments for the pension benefit plan for 2007 through 2011 and in total for 2012 through 2016, in millions, are approximately $69, $72, $74, $76, $75 and $399, respectively. The expected benefit payments for the OPEB plan for 2007 through 2011 and in total for 2012 through 2016, in millions, are approximately $19, $21, $23, $25, $27, and $148, respectively. The expected benefit payments include benefit payments directly from plan assets and benefit payments directly from PEC assets. The benefit payment amounts reflect the net cost to PEC after any participant contributions and do not reflect reductions for expected prescription drug-related federal subsidies. The expected federal subsidies for 2007 through 2011 and in total for 2012 through 2016, in millions, are approximately $1, $2, $2, $2, $3 and $19, respectively.

In 2007, PEF expects to make $10 million of contributions directly to pension plan assets and $1 million of discretionary contributions to OPEB plan assets. The expected benefit payments for the pension benefit plan for 2007 through 2011 and in total for 2012 through 2016, in millions, are approximately $56, $56, $57, $57, $59 and $316, respectively. The expected benefit payments for the OPEB plan for 2007 through 2011 and in total for 2012 through 2016, in millions, are approximately $19, $20, $21, $22, $22 and $113, respectively. The expected benefit payments include benefit payments directly from plan assets and benefit payments directly from PEF's assets. The benefit payment amounts reflect the net cost to PEF after any participant contributions and do not reflect reductions for expected prescription drug-related federal subsidies. The expected federal subsidies for 2007 through 2011 and in total for 2012 through 2016, in millions, are approximately $2, $2, $2, $2, $2 and $16, respectively.

B. Florida Progress Acquisition

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

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

17. RISK MANAGEMENT ACTIVITIES AND DERIVATIVES TRANSACTIONS

We are exposed to various risks related to changes in market conditions. We have a risk management committee that includes senior executives from various business groups. The risk management committee is responsible for administering risk management policies and monitoring compliance with those policies by all subsidiaries. Under our risk

policy, we may use a variety of instruments, including swaps, options and forward contracts, to manage exposure to fluctuations in commodity prices and interest rates. Such instruments contain credit risk if the counterparty fails to perform under the contract. We minimize such risk by performing credit reviews using, among

other things, publicly available credit ratings of such counterparties. Potential nonperformance by counterparties is not expected to have a material effect on our financial position or results of operations.

As discussed in Note 3, on December 13, 2006, our board of directors approved a plan to pursue the disposition of substantially all of PVI's remaining CCO physical and commercial assets and on July 12, 2006, our board of directors approved a plan to divest of Gas. The transaction to sell Gas closed on October 2, 2006. We expect to complete the disposition plan for CCO in 2007.

Due to the reclassification of the remaining CCO operations to discontinued operations in December 2006, management determined that it was no longer probable that the forecasted transactions underlying certain derivative contracts covering approximately 95 Bcf of natural gas would be fulfilled. Therefore, these contracts were no longer treated as cash flow hedges, and were dedesignated and cash flow hedge accounting was discontinued.

At December 31, 2006, derivative assets and derivative liabilities related to CCO are included in assets of discontinued operations and liabilities of discontinued operations, respectively, on the Consolidated Balance Sheet. At December 31, 2005, derivative assets and derivative liabilities related to Gas and CCO are included in assets of discontinued operations and liabilities of discontinued operations, respectively, on the Consolidated Balance Sheet. For the years ending December 31, 2006, 2005 and 2004, excluding amounts reclassified to earnings due to discontinuance of the related cash flow hedges, net gains and losses from derivative instruments related to Gas and CCO on a consolidated basis were not material and are included in discontinued operations, net of tax on the Consolidated Statements of Income. For the year ending December 31, 2006, discontinued operations, net of tax includes $74 million in after-tax deferred income, which was reclassified to earnings due to discontinuance of the related cash flow hedges. For the year ending December 31, 2005, there were no reclassifications to earnings due to discontinuance of the related cash flow hedges. For the year ending December 31, 2004, discontinued operations, net of tax includes $10 million in after-tax deferred losses, which were reclassified to earnings due to discontinuance of the related cash flow hedges.

A. Commodity Derivatives

GENERAL

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

In 2003, PEC recorded a $38 million pre-tax ($23 million after-tax) fair value loss transition adjustment pursuant to the provisions of FASB Derivatives Implementation Group Issue C20, "Interpretation of the Meaning of Not Clearly and Closely Related in Paragraph 10(b) regarding Contracts with a Price Adjustment Feature" (DIG Issue C20). The related liability is being amortized to earnings over the term of the related contract (See Note 20). At December 31, 2006 and 2005, the remaining liability was $14 million and $19 million, respectively.

ECONOMIC DERIVATIVES

Derivative products, primarily electricity and natural gas contracts, may be entered into from time to time for economic hedging purposes. While management believes the economic hedges mitigate exposures to fluctuations in commodity prices, these instruments are not designated as hedges for accounting purposes and are monitored consistent with trading positions. We manage open positions with strict policies that limit our exposure to market risk and require daily reporting to management of potential financial exposures. Gains and losses from such contracts were not material to our or the Utilities' results of operations during the years ended December 31, 2006, 2005 and 2004. Excluding $107 million of derivative assets, which are included in assets of discontinued operations on the Consolidated Balance Sheet and $31 million of derivative liabilities, which are included in liabilities of discontinued operations on the Consolidated Balance

Sheet at December 31, 2006, we did not have material outstanding positions in such contracts at December 31, 2006 and 2005, other than those receiving regulatory accounting treatment at PEF, as discussed below. Our discontinued operations did not have material outstanding positions in such contracts at December 31, 2005.

PEC did not have material outstanding positions in such contracts at December 31, 2006 and 2005. PEF did not have material outstanding positions in such contracts at December 31, 2006 and 2005, other than those receiving regulatory accounting treatment, as discussed below.

PEF has derivative instruments related to its exposure to price fluctuations on fuel oil and natural gas purchases. These instruments receive regulatory accounting treatment. Unrealized gains and losses are recorded in regulatory liabilities and regulatory assets on the Balance Sheets, respectively, until the contracts are settled. Once settled, any realized gains or losses are passed through the fuel clause. At December 31, 2006, the fair values of these instruments were a $2 million long-term derivative asset position included in other assets and deferred debits, an $87 million short-term derivative liability position included in other current liabilities and a $36 million long-term derivative liability position included in other liabilities and deferred credits on the Balance Sheet. At December 31, 2005, the fair values of the instruments were a $77 million short-term derivative asset position included in other current assets, a $45 million long-term derivative asset position included in other assets and deferred debits and a $49 million long-term derivative liability position included in other liabilities and deferred credits on the Balance Sheet.

On January 8, 2007, we entered into derivative contracts to hedge economically a portion of our 2007 synthetic fuels cash flow exposure to the risk of rising oil prices over an average annual oil price range of $63 to $77 per barrel on a New York Mercantile Exchange (NYMEX) basis. The notional quantity of these oil price hedge instruments is 25 million barrels and will provide protection for the equivalent of approximately eight million tons of 2007 synthetic fuels production. The cost of the hedges was approximately $65 million. The contracts will be marked-to-market with changes in fair value recorded through earnings from synthetic fuels production.

CASH FLOW HEDGES

Our subsidiaries designate a portion of commodity derivative instruments as cash flow hedges under SFAS No. 133. The objective for holding these instruments is to hedge exposure to market risk associated with fluctuations in the price of natural gas and power for our forecasted purchases and sales. Realized gains and losses are recorded net in operating revenues or operating expenses, as appropriate. The ineffective portion of commodity cash flow hedges was not material to our or the Utilities' results of operations for 2006, 2005 and 2004.

The fair values of commodity cash flow hedges at December 31 were as follows:

	Progress Energy		PEC		PEF	
(in millions)	**2006**	2005	**2006**	2005	**2006**	2005
Fair value of assets	**$ 2**	$ 7	**$ 2**	$ 7	**$ -**	$ -
Fair value of liabilities	**-**	(4)	**-**	(4)	**-**	-
Fair value, net	**$ 2**	$ 3	**$ 2**	$ 3	**$ -**	$ -

Our discontinued operations did not have material outstanding positions in commodity cash flow hedges at December 31, 2006. Excluded from the table above are $163 million of derivative assets, which are included in assets of discontinued operations, and $54 million of derivative liabilities, which are included in liabilities of discontinued operations on the Consolidated Balance Sheet at December 31, 2005.

At December 31, 2006, the amount recorded in our, PEC's or PEF's AOCI related to commodity cash flow hedges was not material. At December 31, 2005, we had $69 million of after-tax deferred income and PEC had $2 million of after-tax deferred income recorded in AOCI related to commodity cash flow hedges. PEF had no amount recorded in AOCI related to commodity cash flow hedges at December 31, 2006 or 2005.

B. Interest Rate Derivatives - Fair Value or Cash Flow Hedges

We use cash flow hedging strategies to reduce exposure to changes in cash flow due to fluctuating interest rates. We use fair value hedging strategies to reduce exposure to changes in fair value due to interest rate changes. The notional amounts of interest rate derivatives are not exchanged and do not represent exposure to credit loss. In the

event of default by the counterparty, the risk in these transactions is the cost of replacing the agreements at current market rates.

On November 7, 2006, Progress Energy commenced a tender offer for up to $550 million aggregate principal amount of its 2011 and 2012 senior notes. Subsequently, we executed a total notional amount of $550 million of reverse treasury locks to reduce exposure to changes in cash flow due to fluctuating interest rates, which were then terminated on December 1, 2006. On December 6, 2006, Progress Energy repurchased, pursuant to the tender offer, $550 million, or 53.0 percent, of the outstanding aggregate principal amount of its 7.10% Senior Notes due March 1, 2011, at 108.361 percent of par, or $596 million, plus accrued interest.

The fair values of open interest rate hedges at December 31 were as follows:

	Progress Energy		PEC		PEF	
(in millions)	**2006**	2005	**2006**	2005	**2006**	2005
Interest rate cash flow hedges	**$ (2)**	$ 1	**$ (1)**	$ -	**$ (1)**	$ -
Interest rate fair value hedges	**(1)**	(2)	**-**	-	**-**	-

CASH FLOW HEDGES

Gains and losses from cash flow hedges are recorded in AOCI and amounts reclassified to earnings are included in net interest charges as the hedged transactions occur. Amounts in AOCI related to terminated hedges are reclassified to earnings as the interest expense is recorded. The ineffective portion of interest rate cash flow hedges was not material to our or the Utilities' results of operations for 2006, 2005 and 2004.

The following table presents selected information related to interest rate cash flow hedges included in AOCI at December 31, 2006:

	Maximum Term			Accumulated Other Comprehensive Loss, net of Tax[(a)]			Portion Expected to be Reclassified to Earnings during the Next 12 Months[(b)]		
(term in years/ dollars in millions)	Progress Energy	PEC	PEF	Progress Energy	PEC	PEF	Progress Energy	PEC	PEF
Interest rate cash flow hedges	1	1	1	$ (14)	$ (5)	$ (1)	$ (2)	$ (1)	$ -

(a) Includes amounts related to terminated hedges.

(b) Actual amounts that will be reclassified to earnings may vary from the expected amounts presented above as a result of changes in interest rates.

PEC entered into a $50 million forward starting swap on June 2, 2006, and PEF entered into a $50 million forward starting swap on June 6, 2006, to mitigate exposure to interest rate risk on their respective anticipated debt issuances in 2007. These swaps were designated as cash flow hedges as of July 1, 2006.

At December 31, 2005, including amounts related to terminated hedges, we had $13 million of after-tax deferred losses and PEC had $5 million of after-tax deferred losses recorded in AOCI related to interest rate cash flow hedges. PEF had no amount recorded in AOCI related to interest rate cash flow hedges.

At December 31, 2005, we had $100 million notional of interest rate cash flow hedges, which were settled in the first

quarter of 2006. The Utilities had no open interest rate cash flow hedges at December 31, 2005.

FAIR VALUE HEDGES

For interest rate fair value hedges, the change in the fair value of the hedging derivative is recorded in net interest charges and is offset by the change in the fair value of the hedged item. At December 31, 2006 and 2005, we had

$50 million notional and $150 million notional, respectively, of interest rate fair value hedges. At December 31, 2006 and 2005, the Utilities had no open interest rate fair value hedges.

18. RELATED PARTY TRANSACTIONS

As a part of normal business, we enter into various agreements providing financial or performance assurances to third parties. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. Our guarantees include performance obligations under power supply agreements, tolling agreements, transmission agreements, gas agreements, fuel procurement agreements and trading operations. Our guarantees also include standby letters of credit and surety bonds. At December 31, 2006, the Parent had issued $1.34 billion of guarantees for future financial or performance assurance on behalf of its subsidiaries. This includes $300 million of guarantees of certain payments of two wholly owned indirect subsidiaries (See Note 23). We do not believe conditions are likely for significant performance under the guarantees of performance issued by or on behalf of affiliates. To the extent liabilities are incurred as a result of the activities covered by the guarantees, such liabilities are included in the Consolidated Balance Sheet.

Our subsidiaries provide and receive services, at cost, to and from the Parent and its subsidiaries, in accordance with agreements approved by the SEC pursuant to Section 13(b) of PUHCA 1935. The repeal of PUHCA 1935 effective February 8, 2006, and subsequent regulation by the FERC did not change our current intercompany services. Services include purchasing, human resources, accounting, legal, transmission and delivery support, engineering materials, contract support, loaned employees payroll costs, construction management and other centralized administrative, management and support services. The costs of the services are billed on a direct-charge basis, whenever possible, and on allocation factors for general costs that cannot be directly attributed. Billings from affiliates are capitalized or expensed depending on the nature of the services rendered. Amounts receivable from and/or payable to affiliated companies for these services are included in receivables from affiliated companies and payables to affiliated companies on the Balance Sheets.

PESC provides the majority of the affiliated services under the approved agreements. Services provided by PESC during 2006, 2005 and 2004 to PEC amounted to $188 million, $202 million and $209 million, respectively, and services provided to PEF were $165 million, $169 million and $165 million, respectively.

PEC and PEF also provide and receive services at cost. Services provided by PEC to PEF during 2006, 2005 and 2004 amounted to $34 million, $54 million and $52 million, respectively. Services provided by PEF to PEC during 2006, 2005 and 2004 amounted to $8 million, $14 million and $16 million, respectively.

PEC and PEF participate in an internal money pool, operated by Progress Energy, to more effectively utilize cash resources and to reduce outside short-term borrowings. The money pool is also used to settle intercompany balances. The weighted-average interest rate for the money pool was 5.17%, 3.77% and 1.72% at December 31, 2006, 2005 and 2004, respectively. Amounts payable to the money pool are included in notes payable to affiliated companies on the Balance Sheets. PEC and PEF recorded insignificant interest expense related to the money pool for all the years presented.

Progress Fuels sold coal to PEF at cost in 2006 and for an insignificant profit in 2005 and 2004. These intercompany revenues and expenses are eliminated in consolidation; however, in accordance with SFAS No. 71, profits on intercompany sales to regulated affiliates are not eliminated if the sales price is reasonable and the future recovery of sales price through the ratemaking process is probable. Sales, net of insignificant profits, if any, of $321 million, $402 million and $331 million for the years ended December 31, 2006, 2005 and 2004, respectively, are included in fuel used in electric generation on the Consolidated Statements of Income. In 2006, PEF began entering into coal contracts on its own behalf.

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

19. FINANCIAL INFORMATION BY BUSINESS SEGMENT

Our reportable segments are: PEC, PEF, and Coal and Synthetic Fuels.

Our PEC and PEF business segments are primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina, South Carolina and Florida. These electric operations also distribute and sell electricity to other utilities, primarily in the eastern United States.

Our Coal and Synthetic Fuels segment is involved in the production and sale of coal-based solid synthetic fuels as defined under the Code, the operation of synthetic fuels facilities for third parties, and coal terminal services. On May 22, 2006, we idled our synthetic fuels facilities due to significant uncertainty surrounding synthetic fuels production. During September and October 2006, we resumed limited synthetic fuels production at our facilities, which continued through the end of 2006. See Notes 8 and 9 for additional information.

In addition to the reportable operating segments, the Corporate and Other segment includes the operations of the Parent and PESC as well as other nonregulated businesses. These nonregulated businesses do not separately meet the disclosure requirements of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Included in the 2004 losses is a $43 million pre-tax ($29 million after-tax) settlement agreement that our subsidiary Strategic Resource Solutions Corp. reached with the San Francisco United School District related to civil proceedings. The profit or loss of our reportable segments plus the profit or loss of Corporate and Other represents our total income from continuing operations.

As discussed in Note 3, prior to 2006, our former Progress Ventures segment was engaged in nonregulated electric generation and energy marketing activities and natural gas drilling and production. Also, prior to 2006, PT LLC was included within the Corporate and Other segment, and Dixie Fuels and other fuels business were included within the Coal and Synthetic Fuels segment. In connection with their respective divestitures, certain of which are expected to close in 2007, these operations were reclassified to discontinued operations in 2006 and therefore are not included in the results from continuing operations during the periods reported. For comparative purposes, prior year results have been restated to conform to the current segment presentation.

The postretirement and severance charges incurred in 2005 resulted from a workforce restructuring and voluntary enhanced retirement program that was approved in February 2005 and concluded in December 2005.

Products and services are sold between the various reportable segments. All intersegment transactions are at cost except for transactions between PEF and the Coal and Synthetic Fuels segment, which are at rates set by the FPSC. In accordance with SFAS No. 71, profits on intercompany sales between PEF and the Coal and Synthetic Fuels segment are not eliminated if the sales price is reasonable and the future recovery of sales price through the ratemaking process is probable. The profits realized for 2006, 2005 and 2004 were not significant. Prior to 2006, income tax expense (benefit) by segment includes the Parent's allocation to profitable subsidiaries of income tax benefits not related to acquisition interest expense in accordance with the Tax Agreement. Due to the repeal of PUHCA 1935, the Parent stopped allocating these tax benefits in 2006.

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

(in millions)		PEC	PEF	Coal and Synthetic Fuels	Corporate and Other	Eliminations	Totals
As of and for the year ended December 31, 2006							
Revenues							
Unaffiliated	**$**	**4,086 $**	**4,639 $**	**845 $**	**- $**	**- $**	**9,570**
Intersegment		**-**	**-**	**321**	**408**	**(729)**	**-**
Total revenues		**4,086**	**4,639**	**1,166**	**408**	**(729)**	**9,570**
Depreciation and amortization		**571**	**404**	**19**	**38**	**-**	**1,032**
Interest income		**25**	**15**	**2**	**85**	**(66)**	**61**
Total interest charges, net		**215**	**150**	**15**	**312**	**(67)**	**625**
Impairment of long-lived assets and investments		**-**	**-**	**91**	**-**	**-**	**91**
Income tax expense (benefit)		**265**	**193**	**(145)**	**(109)**	**-**	**204**
Segment profit (loss)		**454**	**326**	**(76)**	**(190)**	**-**	**514**
Total assets		**12,020**	**8,593**	**268**	**15,204**	**(11,271)**	**24,814**
Capital and investment expenditures		**808**	**741**	**3**	**12**	**(9)**	**1,555**
As of and for the year ended December 31, 2005							
Revenues							
Unaffiliated	$	3,991 $	3,955 $	1,222 $	- $	- $	9,168
Intersegment		-	-	402	437	(839)	-
Total revenues		3,991	3,955	1,624	437	(839)	9,168
Depreciation and amortization		561	334	34	34	-	963
Interest income		8	1	3	94	(90)	16
Total interest charges, net		192	126	23	318	(85)	574
Postretirement and severance charges		55	102	5	1	-	163
Income tax expense (benefit)		239	121	(354)	(43)	-	(37)
Segment profit (loss)		490	258	163	(190)	-	721
Total assets		11,502	8,318	450	17,898	(13,672)	24,496
Capital and investment expenditures		682	543	5	19	(19)	1,230

(in millions)	PEC	PEF	Coal and Synthetic Fuels	Corporate and Other	Eliminations	Totals
As of and for the year ended December 31, 2004						
Revenues						
Unaffiliated	$ 3,629	$ 3,525	$ 886	$ 13	$ -	$ 8,053
Intersegment	-	-	333	430	(763)	-
Total revenues	3,629	3,525	1,219	443	(763)	8,053
Depreciation and amortization	570	281	34	34	-	919
Interest income	4	-	6	90	(89)	11
Total interest charges, net	192	114	23	322	(85)	566
Postretirement and severance charges	2	-	1	-	-	3
Income tax expense (benefit)	239	174	(280)	(66)	-	67
Segment profit (loss)	458	333	90	(208)	-	673
Total assets	10,787	7,924	540	17,465	(13,550)	23,166
Capital and investment expenditures	620	492	6	20	(12)	1,126

20. OTHER INCOME AND OTHER EXPENSE

Other income and expense includes interest income, impairment of investments, and other income and expense items as discussed below. Nonregulated energy and delivery services include power protection services and mass market programs such as surge protection, appliance services and area light sales, and delivery, transmission and substation work for other utilities. AFUDC equity represents the estimated equity costs of capital funds necessary to finance the construction of new regulated assets. The components of other, net as shown on the accompanying Statements of Income for the years ended December 31 were as follows:

Progress Energy

(in millions)	2006	2005	2004
Other income			
Nonregulated energy and delivery services income	**$ 41**	$ 32	$ 28
DIG Issue C20 amortization (Note 17A)	**5**	7	9
Contingent value obligation unrealized gain (Note 15)	**-**	6	9
Gain on sale of Level 3 stock [(a)]	**32**	-	-
Investment gains	**4**	4	2
Income from equity investments	**1**	1	3
AFUDC equity	**21**	16	12
Reversal of indemnification liability (Note 21B)	**29**	-	-
Other	**16**	16	14
Total other income	**149**	82	77
Other expense			
Nonregulated energy and delivery services expenses	**27**	23	21
Donations	**20**	18	15
Contingent value obligation unrealized loss (Note 15)	**25**	-	-
Loss from equity investments	**8**	13	8
Loss on debt redemption[(b)]	**59**	-	-
FERC audit settlement	**-**	7	-
Indemnification liability (Note 21B)	**13**	16	-
Other	**15**	12	29
Total other expense	**167**	89	73
Other, net - Progress Energy	**$ (18)**	$ (7)	$ 4

PEC

(in millions)	2006	2005	2004
Other income			
Nonregulated energy and delivery services income	**$ 15**	$ 12	$ 11
DIG Issue C20 amortization (Note 17A)	**5**	7	9
Income from equity investments	**-**	1	3
AFUDC equity	**4**	3	4
Reversal of indemnification liability (Note 21B)	**29**	-	-
Other	**10**	9	13
Total other income	**63**	32	40
Other expense			
Nonregulated energy and delivery services expenses	**7**	9	9
Donations	**10**	8	7
Losses from equity investments	**1**	-	3
FERC audit settlement	**-**	4	-
Indemnification liability (Note 21B)	**13**	16	-
Other	**7**	10	22
Total other expense	**38**	47	41
Other, net - PEC	**$ 25**	$ (15)	$ (1)

PEF

(in millions)		2006		2005		2004
Other income						
Nonregulated energy and delivery services income	$	26	$	20	$	17
Investment gains		2		2		1
AFUDC equity		17		13		7
Other		1		-		-
Total other income		46		35		25
Other expense						
Nonregulated energy and delivery services expenses		20		14		12
Donations		10		10		9
Losses from equity investments		1		-		-
FERC audit settlement		-		3		-
Other		2		1		1
Total other expense		33		28		22
Other, net - PEF	$	13	$	7	$	3

[a] Other income includes pre-tax gains of $32 million for the year ended December 31, 2006, from the sale of approximately 20 million shares of Level 3 stock received as part of the sale of our interest in PT LLC (See Note 3D). These gains are prior to the consideration of minority interest.

[b] On November 27, 2006, Progress Energy redeemed the entire outstanding $350 million principal amount of its 6.05% Senior Notes due April 15, 2007, and the entire outstanding $400 million principal amount of its 5.85% Senior Notes due October 30, 2008. On December 6, 2006, Progress Energy repurchased, pursuant to a tender offer, $550 million, or 53.0 percent, of the aggregate principal amount of its 7.10% Senior Notes due March 1, 2011. We recognized a total pre-tax loss of $59 million in conjunction with these redemptions.

21. ENVIRONMENTAL MATTERS

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

A. Hazardous and Solid Waste

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

through either base rates or cost-recovery clauses. Both PEC and PEF evaluate potential claims against other potential PRPs and insurance carriers and plan to submit claims for cost recovery where appropriate. The outcome of these potential claims cannot be predicted. No material claims are currently pending. A discussion of sites by legal entity follows.

We record accruals for probable and estimable costs related to environmental sites on an undiscounted basis. We measure our liability for these sites based on available evidence including our experience in investigating and

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

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

(in millions)		**2006**		2005
PEC				
MGP and other sites[a]	**$**	**22**	$	7
PEF				
Remediation of distribution and substation transformers		**43**		20
MGP and other sites		**18**		18
Total PEF environmental remediation accruals[b]		**61**		38
Progress Energy nonregulated operations		**3**		3
Total Progress Energy environmental remediation accruals	**$**	**86**	$	48

[a] Expected to be paid out over one to five years.
[b] Expected to be paid out over one to fifteen years.

Progress Energy

In addition to the Utilities' sites, discussed under "PEC" and "PEF" below, our environmental sites include the following related to our nonregulated operations.

In 2001, we, through our Progress Fuels subsidiary, established an accrual to address indemnities and retained an environmental liability associated with the sale of our Inland Marine Transportation business. At December 31, 2006 and 2005, the remaining accrual balance was approximately $3 million. Expenditures related to this liability were not material during 2006 and 2005.

On March 24, 2005, we completed the sale of our Progress Rail subsidiary. In connection with the sale, we incurred indemnity obligations related to certain pre-closing liabilities, including certain environmental matters (See discussion under Guarantees in Note 22C).

PEC

There are currently eight former MGP sites and a number of other sites associated with PEC that have required or are anticipated to require investigation and/or remediation. Three of these sites are in the long-term monitoring phase.

For the year ended December 31, 2006, including the Ward Transformer site and MGP sites discussed below, PEC accrued approximately $21 million and spent approximately $6 million. For the year ended December 31, 2005, PEC accrued approximately $4 million and spent approximately $6 million. In October 2006, PEC received orders from the NCUC and SCPSC to defer and amortize certain environmental remediation expenses (See Note 7B).

In September 2005, the EPA advised PEC that it had been identified as a PRP at the Carolina Transformer site located in Fayetteville, N.C. The EPA offered PEC and a number of other PRPs the opportunity to share in the reimbursement to the EPA of past expenditures in addressing conditions at the site, which are currently approximately $32 million. In May 2006, a meeting was called by the EPA to discuss a settlement proposal among the PRPs. An agreement among PRPs has not been reached; consequently, it is not possible at this time to

reasonably estimate the amount of PEC's share of the reimbursement for remediation of the Carolina Transformer site. The outcome of this matter cannot be predicted.

During the fourth quarter of 2004, the EPA advised PEC that it had been identified as a PRP at the Ward Transformer site located in Raleigh, N.C. The EPA offered PEC and a number of other PRPs the opportunity to negotiate cleanup of the site and reimbursement to the EPA for EPA's past expenditures in addressing conditions at the site. In September 2005, PEC and other PRPs signed a settlement agreement, which requires the participating PRPs to remediate the site. For the year ended December 31, 2005, PEC accrued approximately $3 million for its portion of the EPA's estimated remediation costs and the EPA's past costs. For the year ended December 31, 2006, based upon continuing assessment work performed at the site, PEC recorded an additional $9 million accrual for its portion of the estimated remediation costs. At December 31, 2006, after cumulative expenditures for the Ward site of approximately $3 million, PEC's recorded liability for the site was approximately $9 million. Actual experience may differ from current estimates, and it is probable that estimates will continue to change in the future. The outcome of this matter cannot be predicted.

For the year ended December 31, 2006, based upon newly available data for several of PEC's MGP sites, which had individual site remediation costs ranging from approximately $2 million to $4 million, a remediation liability of approximately $12 million was recorded for the minimum estimated total remediation cost for all of PEC's remaining MGP sites. However, the maximum amount of the range for all the sites cannot be determined at this time as one of the remaining sites is significantly larger than the sites for which we have historical experience.

PEF

PEF has received approval from the FPSC for recovery of the majority of costs associated with the remediation of distribution and substation transformers through the Environmental Cost Recovery Clause (ECRC). Under agreements with the Florida Department of Environmental Protection, PEF is in the process of examining distribution transformer sites and substation sites for mineral oil-impacted soil remediation caused by equipment integrity issues. PEF has reviewed a number of distribution transformer sites and all substation sites. Based on changes to the estimated time frame for inspections of distribution transformer sites, PEF currently expects to have completed this review by the end of 2008. Should further sites be identified, PEF believes that any estimated costs would also be recovered through the ECRC. For the years ended December 31, 2006 and 2005, PEF accrued approximately $42 million and $2 million, respectively, due to additional sites expected to require remediation and spent approximately $19 million and $9 million, respectively, related to the remediation of transformers. At December 31, 2006, PEF has recorded a regulatory asset for the probable recovery of these costs through the ECRC (See Note 7A).

The amounts for MGP and other sites, in the table above, relate to two former MGP sites and other sites associated with PEF that have required or are anticipated to require investigation and/or remediation. The amounts include approximately $12 million in insurance claim settlement proceeds received in 2004, which are restricted for use in addressing costs associated with environmental liabilities. For the year ended December 31, 2006, PEF made no accruals and PEF's expenditures and insurance proceeds were not material to our or PEF's results of operations or financial condition. For the year ended December 31, 2005, PEF made no material accruals, spent approximately $1 million and received approximately $1 million of additional insurance proceeds.

B. Air and Water Quality

We are subject to various current federal, state and local environmental compliance laws and regulations governing air and water quality, resulting in capital expenditures and increased O&M expenses. These compliance laws and regulations include the Clean Air Interstate Rule (CAIR), the Clean Air Mercury Rule (CAMR), the Clean Air Visibility Rule (CAVR), the NOx SIP Call Rule under Section 110 of the Clean Air Act (NOx SIP Call) and the Clean Smokestacks Act. At December 31, 2006, cumulative capital expenditures to date to comply with these environmental laws and regulations were $937 million, including $909 million and $28 million at PEC and PEF, respectively.

In June 2002, the Clean Smokestacks Act was enacted in North Carolina requiring the state's electric utilities to reduce the emissions of nitrogen oxide (NOx) and SO_2 from their North Carolina coal-fired power plants in phases

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by 2013. The Clean Smokestacks Act requires PEC to amortize $569 million, representing 70 percent of the original cost estimate of $813 million, during the five-year period ending December 31, 2007. The Clean Smokestacks Act permits PEC the flexibility to vary the amortization schedule for recording of the compliance costs from none up to $174 million per year. For the years ended December 31, 2006, 2005 and 2004, PEC recognized amortization of $140 million, $147 million and $174 million, respectively, and has recognized $535 million in cumulative amortization through December 31, 2006. The remaining amortization requirement of $34 million will be recorded during the one-year period ending December 31, 2007. The NCUC will hold a hearing prior to December 31, 2007, to determine cost-recovery amounts for 2008 and 2009.

Two of PEC's largest coal-fired generation plants (the Roxboro No. 4 and Mayo Units) impacted by the Clean Smokestacks Act are jointly owned. Pursuant to joint ownership agreements, the joint owners are required to pay a portion of the costs of owning and operating these plants. PEC has determined that the most cost-effective Clean Smokestacks Act compliance strategy is to maximize the SO_2 removal from its larger coal-fired units, including Roxboro No. 4 and Mayo, so as to avoid the installation of expensive emission controls on its smaller coal-fired units. In order to address the joint owner's concerns that such a compliance strategy would result in a disproportionate share of the cost of compliance on the jointly owned units, PEC entered into an agreement with the joint owner to limit its aggregate costs associated with capital expenditures to comply with the Clean Smokestacks Act to approximately $38 million. PEC recorded a related liability for the joint owner's share of estimated costs in excess of the contract amount. At December 31, 2006, the amount of the liability was $29 million and had increased from $16 million at December 31, 2005, based upon the respective current estimates for Clean Smokestacks Act compliance. Because PEC has taken a systemwide compliance approach, its North Carolina retail customers have significantly benefited from the strategy of focusing emission reduction efforts on the jointly owned units, and, therefore, PEC believes that any costs in excess of the joint owner's share should be recovered from North Carolina retail customers, consistent with other capital expenditures associated with PEC's compliance with the Clean Smokestacks Act. On November 2, 2006, PEC notified the NCUC of its intent to record these estimated excess costs as part of the $569 million amortization required to be recorded by December 31, 2007, and subsequently reclassified $29 million of indemnification expense to Clean Smokestacks Act amortization (See Note 20).

22. COMMITMENTS AND CONTINGENCIES

A. Purchase Obligations

At December 31, 2006, the following table reflects contractual cash obligations and other commercial commitments in the respective periods in which they are due:

Progress Energy

(in millions)	2007	2008	2009	2010	2011	Thereafter
Fuel	$ 2,128	$ 1,514	$ 1,057	$ 509	$ 390	$ 1,251
Purchased power	485	454	422	377	381	4,165
Construction obligations	393	197	8	3	-	-
Other purchase obligations	86	71	23	22	15	74
Total	$ 3,092	$ 2,236	$ 1,510	$ 911	$ 786	$ 5,490

PEC

(in millions)	2007	2008	2009	2010	2011	Thereafter
Fuel	$ 1,008	$ 759	$ 547	$ 314	$ 231	$ 647
Purchased power	129	87	85	43	44	464
Construction obligations	99	9	-	-	-	-
Other purchase obligations	21	22	3	3	3	12
Total	$ 1,257	$ 877	$ 635	$ 360	$ 278	$ 1,123

PEF

(in millions)		2007	2008	2009	2010	2011	Thereafter
Fuel	$	931 $	682 $	511 $	194 $	160 $	605
Purchased power		356	366	336	334	337	3,701
Construction obligations		294	188	8	3	-	-
Other purchase obligations		46	46	20	19	12	62
Total	$	1,627 $	1,282 $	875 $	550 $	509 $	4,368

FUEL AND PURCHASED POWER

Through our subsidiaries, we have entered into various long-term contracts for coal, oil, gas and nuclear fuel. Our payments under these commitments were $3.168 billion, $3.071 billion and $2.033 billion for 2006, 2005 and 2004, respectively. PEC's total payments under these commitments for its generating plants were $1.051 billion, $964 million and $477 million in 2006, 2005 and 2004, respectively. PEF's payments totaled $577 million, $506 million and $375 million in 2006, 2005 and 2004, respectively.

Both PEC and PEF have ongoing purchased power contracts with certain cogenerators (primarily QFs) with expiration dates ranging from 2007 to 2033. These purchased power contracts generally provide for capacity and energy payments.

Pursuant to the terms of the 1981 Power Coordination Agreement, as amended, between PEC and Power Agency, PEC is obligated to purchase a percentage of Power Agency's ownership capacity of, and energy from, Harris. In 1993, PEC and Power Agency entered into an agreement to restructure portions of their contracts covering power supplies and interests in jointly owned units. Under the terms of the 1993 agreement, PEC increased the amount of capacity and energy purchased from Power Agency's ownership interest in Harris, and the buyback period was extended six years through 2007. The estimated minimum annual payments for these purchases, which reflect capacity and energy costs, total approximately $34 million. These contractual purchases totaled $38 million, $37 million and $39 million for 2006, 2005 and 2004, respectively.

PEC has a long-term agreement for the purchase of power and related transmission services from Indiana Michigan Power Company's Rockport Unit No. 2 (Rockport). The agreement provides for the purchase of 250 MW of capacity through 2009 with estimated minimum annual payments of approximately $42 million, representing capital-related capacity costs. Total purchases (including energy and transmission use charges) under the Rockport agreement amounted to $80 million, $71 million and $62 million for 2006, 2005 and 2004, respectively.

PEC executed two long-term agreements for the purchase of power from Broad River LLC's Broad River facility (Broad River). One agreement provides for the purchase of approximately 500 MW of capacity through 2021 with an original minimum annual payment of approximately $16 million, primarily representing capital-related capacity costs. The second agreement provided for the additional purchase of approximately 335 MW of capacity through 2022 with an original minimum annual payment of approximately $16 million representing capital-related capacity costs. Total purchases for both capacity and energy under the Broad River agreements amounted to $40 million, $44 million and $42 million in 2006, 2005 and 2004, respectively.

PEC has various pay-for-performance contracts with QFs for approximately 327 MW of capacity expiring at various times through 2014. Payments for both capacity and energy are contingent upon the QFs' ability to generate. Payments made under these contracts were $182 million, $112 million and $90 million in 2006, 2005 and 2004, respectively.

PEF has long-term contracts for approximately 489 MW of purchased power with other utilities, including a contract with

The Southern Company for approximately 414 MW of purchased power annually through 2016. Total purchases, for both energy and capacity, under these agreements amounted to $162 million, $175 million and $128 million for 2006, 2005 and 2004, respectively. Minimum purchases under these contracts, representing capital-related capacity costs, are approximately $65 million annually through 2009, $54 million for 2010 and $38 million annually thereafter through 2016.

PEF has ongoing purchased power contracts with certain QFs for 943 MW of capacity with expiration dates ranging from 2007 to 2033. Energy payments are based on the actual power taken under these contracts. Capacity payments are subject to the QFs meeting certain contract performance obligations. In most cases, these contracts account for 100 percent of the generating capacity of each of the facilities. All commitments have been approved by the FPSC. Total capacity purchases under these contracts amounted to $277 million, $262 million and $247 million for 2006, 2005 and 2004, respectively. At December 31, 2006, minimum expected future capacity payments under these contracts were $289 million, $300 million, $271 million, $274 million and $288 million for 2007 through 2011, respectively, and $3.508 billion thereafter. The FPSC allows the capacity payments to be recovered through a capacity cost-recovery clause, which is similar to, and works in conjunction with, energy payments recovered through the fuel cost-recovery clause.

On December 2, 2004, PEF entered into precedent and related agreements with Southern Natural Gas Company (SNG), Florida Gas Transmission Company (FGT), and BG LNG Services, LLC for the supply of natural gas and associated firm pipeline transportation to augment PEF's gas supply needs for the period from May 1, 2007, to April 30, 2027. The total cost to PEF associated with the agreements is approximately $3.9 billion. The transactions are subject to several conditions precedent, some of which have been satisfied, which include obtaining the FPSC's approval of the agreements, the completion and commencement of operation of the necessary related expansions to SNG's and FGT's respective natural gas pipeline systems, and other standard closing conditions. Due to the conditions in the agreements, the estimated costs associated with these agreements are not included in the contractual cash obligations table above.

In January 2006, PEF entered into a conditional contract with Gulfstream Natural Gas System, L.L.C. (Gulfstream) for firm pipeline transportation capacity to augment PEF's gas supply needs for the period from September 1, 2008 through January 1, 2031. The total cost to PEF associated with this agreement is approximately $777 million. The transaction is subject to several conditions precedent, including the completion and commencement of operation of the necessary related expansions to Gulfstream's natural gas pipeline system, and other standard closing conditions. Due to the conditions of this agreement the estimated costs associated with this agreement are not included in the contractual cash obligations table above.

In December 2006, PEF entered into a conditional contract with Cross Timbers Energy Services, Inc. for the supply of natural gas to augment PEF's gas supply needs for the period from June 1, 2008, through May 31, 2013. The total cost to PEF associated with this agreement is approximately $877 million. The transaction is subject to several conditions precedent, including the completion and commencement of operation of necessary related interstate natural gas pipeline system expansions, and other standard closing conditions. Due to the conditions of this agreement the estimated costs associated with this agreement are not included in the contractual cash obligations table above.

In December 2006, PEF entered into a conditional contract with Southeast Supply Header, L.L.C. (SESH) for firm pipeline transportation capacity to augment PEF's gas supply needs for the period from June 1, 2008, through May 31, 2023. The total cost to PEF associated with this agreement is approximately $271 million. The transaction is subject to several conditions precedent, including Florida Public Service Commission approval, the completion and commencement of operation of the SESH pipeline project, and other standard closing conditions. Due to the conditions of this agreement the estimated costs associated with this agreement are not included in the contractual cash obligations table above.

In December 2006, PEF entered into a conditional contract with a private oil and gas company for the supply of natural gas to augment PEF's gas supply needs for the period from June 1, 2008, through May 31, 2013. The total cost to PEF associated with this agreement is approximately $128 million. The transaction is subject to several conditions precedent, including the completion and commencement of operation of necessary related interstate natural gas pipeline system expansions, and other standard closing conditions. Due to the conditions of this agreement the estimated costs associated with this agreement are not included in the contractual cash obligations table above.

CONSTRUCTION OBLIGATIONS

We have purchase obligations related to various capital construction projects. Our total payments under these contracts were $365 million, $91 million and $108 million for 2006, 2005 and 2004, respectively. At December 31, 2006, PEC had construction obligations related to Clean Smokestacks Act capital projects of $99 million and $9 million for 2007 and 2008, respectively, and none thereafter. Total purchases by PEC under various capital projects related to Clean Smokestacks Act were $225 million for 2006 and purchases under various combustion turbine construction obligations were $5 million for 2004. PEC did not have any purchases related to construction obligations in 2005. PEF has purchase obligations related to various plant capital projects related to new generation and Florida CAIR. Total payments under PEF's contracts were $140 million, $91 million and $102 million for 2006, 2005 and 2004, respectively. PEF's future obligations under these contracts are $294 million, $188 million, $8 million and $3 million for 2007 through 2010, respectively.

OTHER PURCHASE OBLIGATIONS

We have entered into various other contractual obligations primarily related to service contracts for operational services entered into by PESC, parts and services contracts, and a PEF service agreement related to the Hines Energy Complex. Our payments under these agreements were $91 million, $82 million and $44 million for 2006, 2005 and 2004, respectively.

We have entered into various other contractual obligations primarily related to capacity and service contracts for operational services associated with discontinued CCO operations. Total payments under these contracts were $18 million, $17 million and $15 million for 2006, 2005 and 2004, respectively. Estimated future payments under these contracts of $198 million are not reflected in the table presented at the beginning of this footnote. Included in these contracts are purchase obligations with two counterparties for pipeline capacity through 2018 and 2028. Payments under these agreements were $16 million, $15 million and $13 million for 2006, 2005 and 2004, respectively. Future obligations under these contracts are approximately $13 million for 2007, $12 million for 2008 through 2011 and approximately $76 million payable thereafter. We anticipate transferring the obligations under these contracts to a third party as part of our disposition strategy.

PEC has various purchase obligations for emission obligations, limestone supply and the purchase of capital parts. Total purchases under these contracts were $2 million, $10 million and $2 million for 2006, 2005 and 2004, respectively. Future obligations under these contracts are $21 million each for 2007 and 2008, $3 million each for 2009 through 2011 and $12 million thereafter.

PEC has various purchase obligations related to reactor vessel head replacements, power uprates and spent fuel storage. Total purchases under these contracts were $8 million for 2006, $13 million for 2005 and $17 million for 2004. We do not have any future purchase obligations under these contracts.

PEF has long-term service agreements for the Hines Energy Complex. Total payments under these contracts were $12 million, $8 million and $11 million for 2006, 2005 and 2004, respectively. Future obligations under these contracts are $11 million, $16 million, $14 million, $19 million and $12 million for 2007 through 2011, respectively, with approximately $62 million payable thereafter.

PEF has various purchase obligations and contractual commitments related to the purchase and replacement of machinery. Total payments under these contracts were $21 million for 2006 and $34 million for 2005. There were no payments under these contracts during 2004. Future obligations under these contracts are $22 million, $8 million and $6 million for 2007 through 2009, respectively.

B. Leases

We lease office buildings, computer equipment, vehicles, railcars and other property and equipment with various terms and expiration dates. Some rental payments for transportation equipment include minimum rentals plus contingent rentals based on mileage. These contingent rentals are not significant. Our rent expense under operating leases totaled $42 million for 2006 and $38 million each for 2005 and 2004. Our purchased power expense under

agreements classified as operating leases was approximately $60 million, $14 million and $25 million in 2006, 2005 and 2004, respectively.

PEC's rent expense under operating leases totaled $25 million for 2006, $24 million for 2005 and $20 million for 2004. These amounts include rent expense allocated from PESC of $8 million, $7 million and $10 million for 2006, 2005 and 2004, respectively. Purchased power expense under agreements classified as operating leases were approximately $10 million, $11 million and $25 million in 2006, 2005 and 2004, respectively.

PEF's rent expense under operating leases totaled $16 million, $11 million and $14 million during 2006, 2005 and 2004, respectively. These amounts include rent expense allocated from PESC to PEF of $7 million each for 2006 and 2005 and $10 million for 2004. Purchased power expense under agreements classified as operating leases was approximately $49 million and $3 million in 2006 and 2005, respectively, and none in 2004.

Assets recorded under capital leases at December 31 consisted of:

	Progress Energy		PEC		PEF	
(in millions)	**2006**	2005	**2006**	2005	**2006**	2005
Buildings	**$ 84**	$ 30	**$ 30**	$ 30	**$ 54**	$ -
Less: Accumulated amortization	**(12)**	(12)	**(12)**	(12)	**-**	-
Total	**$ 72**	$ 18	**$ 18**	$ 18	**$ 54**	$ -

At December 31, 2006, minimum annual payments, excluding executory costs such as property taxes, insurance and maintenance, under long-term noncancelable operating and capital leases were:

	Progress Energy		PEC		PEF	
(in millions)	Capital	Operating	Capital	Operating	Capital	Operating
2007	$ 6	$ 79	$ 2	$ 36	$ 4	$ 39
2008	8	63	3	30	5	29
2009	7	55	2	30	5	22
2010	8	40	3	18	5	20
2011	7	19	2	13	5	4
Thereafter	91	172	12	142	79	26
Minimum annual payments	127	$ 428	24	$ 269	103	$ 140
Less amount representing imputed interest	(55)		(6)		(49)	
Present value of net minimum lease payments under capital leases	$ 72		$ 18		$ 54	

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

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

In 2006, PEF extended the terms of an agreement for purchased power, which is classified as a capital lease, for an additional 10 years. Due to the conditions of the agreement, the capital lease will not be recorded on PEF's Balance Sheet until 2007. Therefore this capital lease is not included in the table above. The agreement calls for annual payments of approximately $27 million from 2007 through 2024 for a total of approximately $460 million.

Excluding the Utilities, we are also a lessor of land, buildings and other types of properties we own under operating leases with various terms and expiration dates. The leased buildings are depreciated under the same terms as other buildings included in diversified business property. Minimum rentals receivable under noncancelable leases are approximately $9 million, $7 million, $6 million, $4 million and $2 million for 2007 through 2011, respectively. Rents received under these operating leases totaled $9 million, $8 million and $6 million for 2006, 2005 and 2004, respectively.

The Utilities are lessors of electric poles, streetlights and other facilities. PEC's minimum rentals under noncancelable leases are $10 million for 2007 and none thereafter. PEC's rents received are contingent upon usage and totaled $31 million each for 2006 and 2005 and $32 million for 2004. PEF's rents received are based on a fixed minimum rental where price varies by type of equipment or contingent usage and totaled $72 million for 2006 and $63 million each for 2005 and 2004. PEF's minimum rentals under noncancelable leases are not material for 2007 and thereafter.

C. Guarantees

As a part of normal business, we enter into various agreements providing future financial or performance assurances to third parties, which are outside the scope of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to Progress Energy or our subsidiaries on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes (See Note 18). Our guarantees include performance obligations under power supply agreements, tolling agreements, transmission agreements, gas agreements, fuel procurement agreements and trading operations. Our guarantees also include standby letters of credit and surety bonds. At December 31, 2006, we do not believe conditions are likely for significant performance under these guarantees. To the extent liabilities are incurred as a result of the activities covered by the guarantees, such liabilities are included in the accompanying Balance Sheets.

At December 31, 2006, we have issued guarantees and indemnifications of certain asset performance, legal, tax and environmental matters to third parties, including indemnifications made in connection with sales of businesses, and for timely payment of obligations in support of our nonwholly owned synthetic fuels operations. Related to the sales of businesses, the latest notice period extends until 2012 for the majority of legal, tax and environmental matters provided for in the indemnification provisions. Indemnifications for the performance of assets extend to 2016. For matters for which we receive timely notice, our indemnity obligations may extend beyond the notice period. Certain indemnifications have no limitations as to time or maximum potential future payments. In 2005, PEC entered into an agreement with the joint owner of certain facilities at the Mayo and Roxboro plants to limit their aggregate costs associated with capital expenditures to comply with the Clean Smokestacks Act and recognized a liability related to this indemnification (See Note 21B). PEC's maximum exposure cannot be determined. At December 31, 2006, the maximum exposure for guarantees and indemnifications for which a maximum exposure is determinable was $208 million, including $32 million at PEF. At December 31, 2006 and 2005, we have recorded liabilities related to guarantees and indemnifications to third parties of approximately $60 million and $41 million, respectively. These amounts include $29 million and $16 million, respectively, for PEC at December 31, 2006 and 2005, and $8 million for PEF at December 31, 2006. PEF had no liabilities related to guarantees and indemnifications to third parties at December 31, 2005. As current estimates change, it is possible that additional losses related to guarantees and indemnifications to third parties, which could be material, may be recorded in the future.

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

D. Other Commitments and Contingencies

1. Spent Nuclear Fuel Matters

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

The DOE failed to begin taking spent nuclear fuel by January 31, 1998. In January 2004, the Utilities filed a complaint in the United States Court of Federal Claims against the DOE, claiming that the DOE breached the Standard Contract for Disposal of Spent Nuclear Fuel by failing to accept spent nuclear fuel from our various facilities on or before January 31, 1998. Our damages due to the DOE's breach will be significant, but have yet to be determined. Approximately 60 cases involving the government's actions in connection with spent nuclear fuel are currently pending in the Court of Federal Claims.

The DOE and the Utilities agreed to, and the trial court entered, a stay of proceedings, in order to allow for possible efficiencies due to the resolution of legal and factual issues in previously filed cases in which similar claims are being pursued by other plaintiffs. These issues may include, among others, so-called "rate issues," or the minimum mandatory schedule for the acceptance of spent nuclear fuel and high-level radioactive waste by which the government was contractually obligated to accept contract holders' spent nuclear fuel and/or high-level waste, and issues regarding recovery of damages under a partial breach of contract theory that will be alleged to occur in the future. These issues have been or are expected to be presented in the trials or appeals that are currently scheduled to occur during 2006 and 2007. Resolution of these issues in other cases could facilitate agreements by the parties in the Utilities' lawsuit, or at a minimum, inform the court of decisions reached by other courts if they remain contested and require resolution in this case. In July 2005, the parties jointly requested a continuance of the stay through December 15, 2005, which the trial court granted. Subsequently, the trial court continued the stay until March 17, 2006. The trial court lifted the stay on March 22, 2006, and discovery has commenced. The trial court's scheduling order, issued on March 23, 2006, included an anticipated trial date in late 2007.

In July 2002, Congress passed an override resolution to Nevada's veto of the DOE's proposal to locate a permanent underground nuclear waste storage facility at Yucca Mountain, Nev. In January 2003, the state of Nevada; Clark County, Nev.; and the city of Las Vegas petitioned the U.S. Court of Appeals for the District of Columbia Circuit for review of the Congressional override resolution. These same parties also challenged the EPA's radiation standards for Yucca Mountain. On July 9, 2004, the Court rejected the challenge to the constitutionality of the resolution approving Yucca Mountain, but ruled that the EPA was wrong to set a 10,000-year compliance period in the radiation protection standard. In August 2005, the EPA issued new proposed standards. The proposed standards include a 1,000,000-year compliance period in the radiation protection standard. Comments were due November 21, 2005, and are being reviewed by the EPA. The EPA is expected to issue a new safety standard for the repository in early 2007. The DOE originally planned to submit a license application to the NRC to construct the Yucca Mountain facility by the end of 2004. However, in November 2004, the DOE announced it would not submit the license application until mid-2005 or later. The DOE did not submit the license application in 2005 and has since reported that the license application will be submitted by June 2008. Congress approved $450 million for fiscal year 2006 for the Yucca Mountain project, approximately $201 million less than requested by the DOE. The DOE requested $545 million for fiscal year 2007. The request has not been approved at this time and the DOE is operating under a continuing resolution that limits spending to the level of fiscal year 2006.The DOE has stated that if legislative changes requested by the Bush administration are enacted, the repository may be able to accept spent nuclear fuel starting in 2017, but 2020 is more probable due to anticipated litigation by the state of Nevada. The Utilities cannot predict the outcome of this matter.

With certain modifications and additional approvals by the NRC, including the installation of onsite dry cask storage

facilities at Robinson, Brunswick and CR3, the Utilities' spent nuclear fuel storage facilities will be sufficient to provide storage space for spent fuel generated on their respective systems through the expiration of the operating licenses, including any license extensions, for their nuclear generating units. Harris has sufficient storage capacity in its spent fuel pools through the expiration of its operating license, including any license extensions.

2. Synthetic Fuels Matters

A number of our subsidiaries and affiliates are parties to two lawsuits arising out of an Asset Purchase Agreement dated as of October 19, 1999, by and among U.S. Global, LLC (Global); the Earthco synthetic fuels facilities (Earthco); certain affiliates of Earthco; EFC Synfuel LLC (which is owned indirectly by Progress Energy, Inc.) and certain of its affiliates, including Solid Energy LLC; Solid Fuel LLC; Ceredo Synfuel LLC; Gulf Coast Synfuel LLC (currently named Sandy River Synfuel LLC) (collectively, the Progress Affiliates), as amended by an amendment to Purchase Agreement as of August 23, 2000 (the Asset Purchase Agreement). Global has asserted that (1) pursuant to the Asset Purchase Agreement, it is entitled to an interest in two synthetic fuels facilities currently owned by the Progress Affiliates and an option to purchase additional interests in the two synthetic fuels facilities and (2) it is entitled to damages because the Progress Affiliates prohibited it from procuring purchasers for the synthetic fuels facilities.

The first suit, *U.S. Global, LLC v. Progress Energy, Inc. et al.*, asserts the above claims in a case filed in the Circuit Court for Broward County, Fla., in March 2003 (the Florida Global Case), and requests an unspecified amount of compensatory damages, as well as declaratory relief. The Progress Affiliates have answered the Complaint by generally denying all of Global's substantive allegations and asserting numerous substantial affirmative defenses. The case is at issue, but neither party has requested a trial. The parties are currently engaged in discovery in the Florida Global Case.

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

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

In December 2006, we reached agreement with Global to settle an additional claim in the suit related to amounts due to Global that were placed in escrow during the course of the Internal Revenue Service (IRS) audit of the Earthco synthetic fuels facilities. The audit was successfully resolved in 2006 and the escrow, which totaled $42 million at December 31, 2006, was paid to Global in January 2007. The remainder of the suit continues. We cannot predict the outcome of this matter.

3. Other Litigation Matters

We and our subsidiaries are involved in various litigation matters in the ordinary course of business, some of which involve substantial amounts. Where appropriate, we have made accruals and disclosures in accordance with SFAS No. 5 to provide for such matters. In the opinion of management, the final disposition of pending litigation would not have a material adverse effect on our consolidated results of operations or financial position.

23. CONDENSED CONSOLIDATING STATEMENTS

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

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

The Subordinated Notes may be redeemed at the option of Funding Corp. at par value plus accrued interest through the redemption date. The proceeds of any redemption of the Subordinated Notes will be used by the Trust to redeem proportional amounts of the Preferred Securities and common securities in accordance with their terms. Upon liquidation or dissolution of Funding Corp., holders of the Preferred Securities would be entitled to the liquidation preference of $25 per share plus all accrued and unpaid dividends thereon to the date of payment. The yearly interest expense is $21 million and is reflected in the Consolidated Statements of Income.

We have guaranteed the payment of all distributions related to the Trust's Preferred Securities. As of December 31, 2006, the Trust had outstanding 12 million shares of the Preferred Securities with a liquidation value of $300 million. Our guarantees are joint and several, full and unconditional and are in addition to the joint and several, full and unconditional guarantees previously issued to the Trust and Funding Corp. by Florida Progress. Our subsidiaries have provisions restricting the payment of dividends to the Parent in certain limited circumstances and, as disclosed in Note 12B, there were no restrictions on PEC's or PEF's retained earnings.

The Trust is a special-purpose entity and in accordance with the provisions of FIN 46R, we deconsolidated the Trust on December 31, 2003. The deconsolidation was not material to our financial statements. Separate financial statements and other disclosures concerning the Trust have not been presented because we believe that such information is not material to investors.

In the following tables, the Parent column includes the financial results of the parent holding company only. The Subsidiary Guarantor column includes the financial results of Florida Progress. The Other column includes the consolidated financial results of all other nonguarantor subsidiaries and elimination entries for all intercompany transactions. All applicable corporate expenses have been allocated appropriately among the guarantor and nonguarantor subsidiaries. The financial information may not necessarily be indicative of results of operations or financial position had the Subsidiary Guarantor or other nonguarantor subsidiaries operated as independent entities. The accompanying condensed consolidating financial statements have been restated for all periods presented to reflect the operations of CCO, Gas, PT LLC, DeSoto, Rowan, Dixie Fuels and other fuels businesses as discontinued operations as described in Note 3.

Condensed Consolidating Statement of Income
Year ended December 31, 2006

(in millions)	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Operating revenues				
Electric	$ -	$ 4,637	$ 4,085	$ 8,722
Diversified business	-	839	9	848
Total operating revenues	-	5,476	4,094	9,570
Operating expenses				
Utility				
Fuel used in electric generation	-	1,835	1,173	3,008
Purchased power	-	766	334	1,100
Operation and maintenance	14	684	885	1,583
Depreciation and amortization	-	404	605	1,009
Taxes other than on income	-	309	191	500
Other	-	(2)	(1)	(3)
Diversified business				
Cost of sales	-	854	44	898
Depreciation and amortization	-	13	10	23
Impairment of assets	-	44	47	91
Other	-	36	16	52
Total operating expenses	14	4,943	3,304	8,261
Operating (loss) income	(14)	533	790	1,309
Other (expense) income, net	(33)	55	21	43
Interest charges, net	276	184	165	625
(Loss) income from continuing operations before income tax, equity in earnings of consolidated subsidiaries and minority interest	(323)	404	646	727
Income tax (benefit) expense	(123)	90	237	204
Equity in earnings of consolidated subsidiaries	779	-	(779)	-
Minority interest in subsidiaries' income, net of tax	-	(9)	-	(9)
Income (loss) from continuing operations	579	305	(370)	514
Discontinued operations, net of tax	(8)	392	(327)	57
Net income (loss)	$ 571	$ 697	$ (697)	$ 571

Condensed Consolidating Statement of Income
Year ended December 31, 2005

(in millions)	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Operating revenues				
Electric	$ -	$ 3,955	$ 3,990	$ 7,945
Diversified business	-	1,244	(21)	1,223
Total operating revenues	-	5,199	3,969	9,168
Operating expenses				
Utility				
Fuel used in electric generation	-	1,323	1,036	2,359
Purchased power	-	694	354	1,048
Operation and maintenance	12	852	906	1,770
Depreciation and amortization	-	334	588	922
Taxes other than on income	4	279	177	460
Other	-	(26)	(11)	(37)
Diversified business				
Cost of sales	-	1,267	86	1,353
Depreciation and amortization	-	21	20	41
Other	-	19	13	32
Total operating expenses	16	4,763	3,169	7,948
Operating (loss) income	(16)	436	800	1,220
Other income (expense), net	66	(5)	(52)	9
Interest charges, net	300	166	108	574
(Loss) income from continuing operations before income tax, equity in earnings of consolidated subsidiaries and minority interest	(250)	265	640	655
Income tax (benefit) expense	(63)	(70)	96	(37)
Equity in earnings of consolidated subsidiaries	884	-	(884)	-
Minority interest in subsidiaries' loss, net of tax	-	29	-	29
Income (loss) from continuing operations	697	364	(340)	721
Discontinued operations, net of tax	-	10	(35)	(25)
Cumulative effect of change in accounting principle, net of tax	-	-	1	1
Net income (loss)	$ 697	$ 374	$ (374)	$ 697

Condensed Consolidating Statement of Income
Year ended December 31, 2004

(in millions)	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Operating revenues				
Electric	$ -	$ 3,525	$ 3,628	$ 7,153
Diversified business	-	895	5	900
Total operating revenues	-	4,420	3,633	8,053
Operating expenses				
Utility				
Fuel used in electric generation	-	1,175	836	2,011
Purchased power	-	567	301	868
Operation and maintenance	10	630	835	1,475
Depreciation and amortization	-	281	597	878
Taxes other than on income	(2)	254	173	425
Other	-	(2)	(11)	(13)
Diversified business				
Cost of sales	-	911	81	992
Depreciation and amortization	-	21	20	41
Other	-	46	58	104
Total operating expenses	8	3,883	2,890	6,781
Operating (loss) income	(8)	537	743	1,272
Other income (expense), net	65	(4)	(46)	15
Interest charges, net	295	152	119	566
(Loss) income from continuing operations before income tax, equity in earnings of consolidated subsidiaries and minority interest	(238)	381	578	721
Income tax (benefit) expense	(57)	12	112	67
Equity in earnings of consolidated subsidiaries	940	-	(940)	-
Minority interest in subsidiaries' loss, net of tax	-	19	-	19
Income (loss) from continuing operations	759	388	(474)	673
Discontinued operations, net of tax	-	86	-	86
Net income (loss)	$ 759	$ 474	$ (474)	$ 759

Condensed Consolidating Balance Sheet
December 31, 2006

(in millions)	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Utility plant, net	$ -	$ 6,337	$ 8,908	$ 15,245
Current assets				
Cash and cash equivalents	153	40	72	265
Short-term investments	21	-	50	71
Notes receivable from affiliated companies	58	37	(95)	-
Deferred fuel cost	-	-	196	196
Assets of discontinued operations	-	45	842	887
Other current assets	27	1,109	1,030	2,166
Total current assets	259	1,231	2,095	3,585
Deferred debits and other assets				
Investment in consolidated subsidiaries	10,740	-	(10,740)	-
Goodwill	-	1	3,654	3,655
Other assets and deferred debits	126	1,583	1,507	3,216
Total deferred debits and other assets	10,866	1,584	(5,579)	6,871
Total assets	$ 11,125	$ 9,152	$ 5,424	$ 25,701
Capitalization				
Common stock equity	$ 8,286	$ 2,708	$ (2,708)	$ 8,286
Preferred stock of subsidiaries - not subject to mandatory redemption	-	34	59	93
Minority interest	-	6	4	10
Long-term debt, affiliate	-	309	(38)	271
Long-term debt, net	2,582	2,512	3,470	8,564
Total capitalization	10,868	5,569	787	17,224
Current liabilities				
Current portion of long-term debt	-	124	200	324
Notes payable to affiliated companies	-	77	(77)	-
Liabilities of discontinued operations	-	13	176	189
Other current liabilities	210	1,281	814	2,305
Total current liabilities	210	1,495	1,113	2,818
Deferred credits and other liabilities				
Noncurrent income tax liabilities	-	61	245	306
Regulatory liabilities	-	1,091	1,452	2,543
Accrued pension and other benefits	14	377	566	957
Other liabilities and deferred credits	33	559	1,261	1,853
Total deferred credits and other liabilities	47	2,088	3,524	5,659
Total capitalization and liabilities	$ 11,125	$ 9,152	$ 5,424	$ 25,701

Condensed Consolidating Balance Sheet
December 31, 2005

(in millions)	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Utility plant, net	$ -	$ 5,821	$ 8,621	$ 14,442
Current assets				
Cash and cash equivalents	239	239	127	605
Short-term investments	-	-	191	191
Notes receivable from affiliated companies	467	-	(467)	-
Deferred fuel cost	-	341	261	602
Assets of discontinued operations	-	757	1,809	2,566
Other current assets	22	992	1,029	2,043
Total current assets	728	2,329	2,950	6,007
Deferred debits and other assets				
Investment in consolidated subsidiaries	11,594	-	(11,594)	-
Goodwill	-	2	3,653	3,655
Other assets and deferred debits	259	1,561	1,138	2,958
Total deferred debits and other assets	11,853	1,563	(6,803)	6,613
Total assets	$ 12,581	$ 9,713	$ 4,768	$ 27,062
Capitalization				
Common stock equity	$ 8,038	$ 3,039	$ (3,039)	$ 8,038
Preferred stock of subsidiaries - not subject to mandatory redemption	-	34	59	93
Minority interest	-	31	5	36
Long-term debt, affiliate	-	440	(170)	270
Long-term debt, net	3,873	2,636	3,667	10,176
Total capitalization	11,911	6,180	522	18,613
Current liabilities				
Current portion of long-term debt	404	109	-	513
Notes payable to affiliated companies	-	315	(315)	-
Short-term debt	-	102	73	175
Liabilities of discontinued operations	-	226	316	542
Other current liabilities	245	762	812	1,819
Total current liabilities	649	1,514	886	3,049
Deferred credits and other liabilities				
Noncurrent income tax liabilities	-	-	198	198
Regulatory liabilities	-	1,189	1,338	2,527
Accrued pension and other benefits	12	307	546	865
Other liabilities and deferred credits	9	523	1,278	1,810
Total deferred credits and other liabilities	21	2,019	3,360	5,400
Total capitalization and liabilities	$ 12,581	$ 9,713	$ 4,768	$ 27,062

Condensed Consolidating Statement of Cash Flows
Year ended December 31, 2006

(in millions)	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Net cash provided (used) by operating activities	$ 1,295	$ 1,015	$ (398)	$ 1,912
Investing activities				
Gross utility property additions	-	(718)	(705)	(1,423)
Diversified business property additions	-	(2)	-	(2)
Nuclear fuel additions	-	(12)	(102)	(114)
Proceeds from sales of discontinued operations and other assets, net of cash divested	-	1,239	415	1,654
Purchases of available-for-sale securities and other investments	(919)	(625)	(908)	(2,452)
Proceeds from sales of available-for-sale securities and other investments	898	724	1,009	2,631
Changes in advances to affiliates	409	(39)	(370)	-
Proceeds from repayment of long-term affiliate debt	131	-	(131)	-
Return of investment in consolidated subsidiaries	287	-	(287)	-
Other investing activities	(63)	(6)	46	(23)
Net cash provided (used) by investing activities	743	561	(1,033)	271
Financing activities				
Issuance of common stock	185	-	-	185
Proceeds from issuance of long-term debt, net	397	-	-	397
Net decrease in short-term debt	-	(102)	(73)	(175)
Retirement of long-term debt	(2,091)	(109)	-	(2,200)
Retirement of long-term affiliate debt	-	(131)	131	-
Dividends paid on common stock	(607)	-	-	(607)
Dividends paid to parent	-	(1,135)	1,135	-
Changes in advances from affiliates	-	(243)	243	-
Cash distributions to minority interests of consolidated subsidiary	-	(79)	-	(79)
Other financing activities	(8)	71	(52)	11
Net cash (used) provided by financing activities	(2,124)	(1,728)	1,384	(2,468)
Cash provided (used) by discontinued operations				
Operating activities	-	92	(6)	86
Investing activities	-	(139)	(2)	(141)
Financing activities	-	-	-	-
Net decrease in cash and cash equivalents	(86)	(199)	(55)	(340)
Cash and cash equivalents at beginning of year	239	239	127	605

Cash and cash equivalents at end of year	$ 153	$ 40	$ 72	$ 265

Condensed Consolidating Statement of Cash Flows
Year ended December 31, 2005

(in millions)	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Net cash provided by operating activities	$ 257	$ 409	$ 509	$ 1,175
Investing activities				
Gross utility property additions	-	(496)	(584)	(1,080)
Diversified business property additions	-	(6)	-	(6)
Nuclear fuel additions	-	(47)	(79)	(126)
Proceeds from sales of discontinued operations and other assets, net of cash divested	-	462	13	475
Purchases of available-for-sale securities and other investments	(1,702)	(405)	(1,878)	(3,985)
Proceeds from sales of available-for-sale securities and other investments	1,702	405	1,738	3,845
Changes in advances to affiliates	333	5	(338)	-
Proceeds from repayment of long-term affiliate debt	369	-	(369)	-
Other investing activities	(12)	(26)	1	(37)
Net cash provided (used) by investing activities	690	(108)	(1,496)	(914)
Financing activities				
Issuance of common stock	208	-	-	208
Proceeds from issuance of long-term debt, net	-	744	898	1,642
Net increase in short-term debt	(170)	(191)	(148)	(509)
Retirement of long-term debt	(160)	(104)	(300)	(564)
Retirement of long-term affiliate debt	-	(369)	369	-
Dividends paid on common stock	(582)	-	-	(582)
Dividends paid to parent	-	(2)	2	-
Changes in advances from affiliates	-	(101)	101	-
Other financing activities	(9)	53	(10)	34
Net cash (used) provided by financing activities	(713)	30	912	229
Cash provided (used) by discontinued operations				
Operating activities	-	93	201	294
Investing activities	-	(206)	(26)	(232)
Financing activities	-	(2)	-	(2)
Net increase in cash and cash equivalents	234	216	100	550
Cash and cash equivalents at beginning of year	5	23	27	55
Cash and cash equivalents at end of year	$ 239	$ 239	$ 127	$ 605

Condensed Consolidating Statement of Cash Flows
Year ended December 31, 2004

(in millions)	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Net cash provided by operating activities	$ 653	$ 469	$ 287	$ 1,409
Investing activities				
Gross utility property additions	-	(482)	(516)	(998)
Diversified business property additions	-	(6)	-	(6)
Nuclear fuel additions	-	-	(101)	(101)
Proceeds from sales of discontinued operations and other assets, net of cash divested	-	343	29	372
Purchases of available-for-sale securities and other investments	-	(569)	(2,565)	(3,134)
Proceeds from sales of available-for-sale securities and other investments	-	569	2,679	3,248
Changes in advances to affiliates	27	(5)	(22)	-
Contributions to consolidated subsidiaries	(15)	-	15	-
Other investing activities	-	(23)	(7)	(30)
Net cash provided (used) by investing activities	12	(173)	(488)	(649)
Financing activities				
Issuance of common stock	73	-	-	73
Proceeds from issuance of long-term debt, net	365	56	-	421
Net increase in short-term debt	170	293	217	680
Retirement of long-term debt	(705)	(68)	(339)	(1,112)
Dividends paid on common stock	(558)	-	-	(558)
Dividends paid to parent	-	(340)	340	-
Changes in advances from affiliates	-	(205)	205	-
Contributions from parent	-	12	(12)	-
Other financing activities	(5)	15	1	11
Net cash (used) provided by financing activities	(660)	(237)	412	(485)
Cash provided (used) by discontinued operations				
Operating activities	-	145	46	191
Investing activities	-	(190)	(9)	(199)
Financing activities	-	(5)	(241)	(246)
Net increase in cash and cash equivalents	5	9	7	21
Cash and cash equivalents at beginning of year	-	14	20	34
Cash and cash equivalents at end of year	$ 5	$ 23	$ 27	$ 55

24. QUARTERLY FINANCIAL DATA (UNAUDITED)

Results of operations for an interim period may not give a true indication of results for the year. In the opinion of management, all adjustments necessary to fairly present amounts shown for interim periods have been made. Summarized quarterly financial data was as follows:

Progress Energy

(in millions except per share data)	First [(a)(b)]	Second [(a)(b)]	Third [(a)(b)]	Fourth [(a)(b)]
2006				
Operating revenues	**$ 2,223**	**$ 2,298**	**$ 2,776**	**$ 2,273**
Operating income	**268**	**210**	**557**	**274**
Income from continuing operations	**85**	**19**	**283**	**127**
Net income (loss)	**45**	**(47)**	**319**	**254**
Common stock data				
Basic earnings per common share				
Income from continuing operations	**0.34**	**0.08**	**1.13**	**0.51**
Net income (loss)	**0.18**	**(0.19)**	**1.27**	**1.01**
Diluted earnings per common share				
Income from continuing operations	**0.34**	**0.08**	**1.12**	**0.51**
Net income (loss)	**0.18**	**(0.19)**	**1.27**	**1.01**
Dividends declared per common share	**0.605**	**0.605**	**0.605**	**0.610**
Market price per share - High	**45.31**	**45.16**	**46.22**	**49.55**
- Low	**42.54**	**40.27**	**42.05**	**44.40**
2005				
Operating revenues	$ 2,051	$ 2,079	$ 2,743	$ 2,295
Operating income	237	119	539	325
Income from continuing operations before cumulative effect of change in accounting principle	103	2	457	159
Net income (loss)	93	(1)	450	155
Common stock data				
Basic earnings per common share				
Income from continuing operations before cumulative effect of change in accounting principle	0.42	0.01	1.84	0.64
Net income (loss)	0.38	(0.01)	1.82	0.62
Diluted earnings per common share				
Income from continuing operations before cumulative effect of change in accounting principle	0.42	0.01	1.84	0.64
Net income (loss)	0.38	(0.01)	1.81	0.62
Dividends declared per common share	0.590	0.590	0.590	0.605
Market price per share -High	45.33	45.83	46.00	45.50
- Low	40.63	40.61	41.90	40.19

(a) Operating results have been restated for discontinued operations.
(b) Certain amounts have been reclassified to conform to current period presentation.

In the opinion of management, all adjustments necessary to fairly present amounts shown for interim periods have been made. Results of operations for an interim period may not give a true indication of results for the year. The first quarter of 2005 included $31 million recorded for estimated severance expense for workforce restructuring and implementation of an automated meter reading initiative at PEF; the second and fourth quarters of 2005 included reversals of estimated severance expense of $13 million each quarter. The second quarter of 2005 included a $141 million charge related to postretirement benefits for employees participating in the voluntary enhanced retirement program (See Note 16A). The second quarter of 2006 includes a $91 million

impairment charge to our synthetic fuels assets and a portion of our coal terminal assets (See Notes 8 and 9). The 2006 and 2005 amounts were restated for discontinued operations (See Note 3).

PEC

Summarized quarterly financial data was as follows:

(in millions)		First [a]		Second [a]		Third [a]		Fourth [a]
2006								
Operating revenues	$	**978**	$	**936**	$	**1,200**	$	**972**
Operating income		**189**		**174**		**346**		**178**
Net income		**86**		**76**		**189**		**106**
2005								
Operating revenues	$	935	$	861	$	1,185	$	1,010
Operating income		221		140		343		227
Net income		116		67		184		126

[a] Certain amounts have been reclassified to conform to current period presentation.

In the opinion of management, all adjustments necessary to fairly present amounts shown for interim periods have been made. Results of operations for an interim period may not give a true indication of results for the year. The first quarter of 2005 included $14 million recorded for estimated severance expense for workforce restructuring; the second and fourth quarters of 2005 included reversals of estimated severance expense of $6 million and $5 million, respectively. The second quarter of 2005 included a $29 million charge related to postretirement benefits for employees participating in the voluntary enhanced retirement program (See Note 16A).

PEF

Summarized quarterly financial data was as follows:

(in millions)		First [a]		Second [a]		Third [a]		Fourth [a]
2006								
Operating revenues	$	**1,007**	$	**1,147**	$	**1,399**	$	**1,086**
Operating income		**117**		**167**		**237**		**122**
Net income		**53**		**87**		**125**		**63**
2005								
Operating revenues	$	848	$	908	$	1,227	$	972
Operating income		89		51		247		112
Net income		44		10		151		55

[a] Certain amounts have been reclassified to conform to current period presentation.

In the opinion of management, all adjustments necessary to fairly present amounts shown for interim periods have been made. Results of operations for an interim period may not give a true indication of results for the year. The first quarter of 2005 included $14 million recorded for estimated severance expense for workforce restructuring and implementation of an automated meter reading initiative; the second and fourth quarters of 2005 included reversals of estimated severance expense of $5 million and $6 million, respectively. The second quarter of 2005 included a $90 million charge related to postretirement benefits for employees participating in the voluntary enhanced retirement program (See Note 16A).

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the consolidated financial statements of Progress Energy, Inc., and its subsidiaries (the Company) at December 31, 2006 and 2005, and for each of the three years in the period ended December 31, 2006, management's assessment of the effectiveness of the Company's internal control over financial reporting at December 31, 2006, and the effectiveness of the Company's internal control over financial reporting at December 31, 2006, and have issued our reports thereon dated February 28, 2007 (which reports on the consolidated financial statements express an unqualified opinion and include an explanatory paragraph concerning the adoption of new accounting principles in 2006 and 2005); such consolidated financial statements and reports are included elsewhere in this Form 10-K. Our audits also included the consolidated financial statement schedule of the Company listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
February 28, 2007

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

Description	Balance at Beginning of Period	Additions Charged to Expenses	Other Additions	Deductions (a)	Balance a End o Perio
Valuation and qualifying accounts deducted in the balance sheet from the related assets:					
DECEMBER 31, 2006					
Uncollectible accounts	**$ 19**	**$ 29**	**$ -**	**$ (20)**	**$ 2**
Fossil fuel plants dismantlement reserve	**145**	**1**	**-**	**(1)**	**14**
Nuclear refueling outage reserve	**2**	**14**	**-**	**-**	**1**
DECEMBER 31, 2005					
Uncollectible accounts	$ 22	$ 16	$ -	$ (19)	$ 1
Fossil fuel plants dismantlement reserve	144	1	-	-	14
Nuclear refueling outage reserve	12	11	-	(21) (b)	[illegible]
DECEMBER 31, 2004					
Uncollectible accounts	$ 28	$ 14	$ (4)	$ (16)	$ 2
Fossil fuel plants dismantlement reserve	143	1	-	-	14
Nuclear refueling outage reserve	2	10	-	-	1

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

(b) Represents payments of actual expenditures related to the outages.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the consolidated financial statements of Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc., and its subsidiaries (PEC) at December 31, 2006 and 2005, and for each of the three years in the period ended December 31, 2006, and have issued our report thereon dated February 28, 2007 (which report expresses an unqualified opinion and includes an explanatory paragraph concerning the adoption of new accounting principles in 2006 and 2005); such consolidated financial statements and report are included elsewhere in this Form 10-K. Our audits also included the consolidated financial statement schedule of PEC listed in Item 15. This consolidated financial statement schedule is the responsibility of PEC's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
February 28, 2007

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

Description	Balance at Beginning of Period	Additions Charged to Expense	Other Additions	Deductions (a)	Balance at End of Period
Valuation and qualifying accounts deducted in the balance sheet from the related assets:					
DECEMBER 31, 2006					
Uncollectible accounts	**$ 4**	**$ 9**	**$ -**	**$ (8)**	**$ 5**
DECEMBER 31, 2005					
Uncollectible accounts	$ 10	$ 5	$ -	$ (11)	$ 4
DECEMBER 31, 2004					
Uncollectible accounts	$ 17	$ 7	$ (4)	$ (10)	$ 10

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the financial statements of Florida Power Corporation d/b/a Progress Energy Florida, Inc., (PEF) at December 31, 2006 and 2005, and for each of the three years in the period ended December 31, 2006, and have issued our report thereon dated February 28, 2007 (which report expresses an unqualified opinion and includes an explanatory paragraph concerning the adoption of new accounting principles in 2006 and 2005); such financial statements and report are included elsewhere in this Form 10-K. Our audits also included the financial statement schedule of PEF listed in Item 15. This financial statement schedule is the responsibility of PEF's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
February 28, 2007

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

Description	Balance at Beginning Of Period	Additions Charged to Expense	Other Additions	Deductions (a)	Balance at End of Period
Valuation and qualifying accounts deducted in the balance sheet from the related assets:					
DECEMBER 31, 2006					
Uncollectible accounts	**$ 6**	**$ 14**	**$ -**	**$ (12)**	**$ 8**
Fossil fuel plants dismantlement reserve	**145**	**1**	**-**	**(1)**	**145**
Nuclear refueling outage reserve	**2**	**14**	**-**	**-**	**16**
DECEMBER 31, 2005					
Uncollectible accounts	$ 2	$ 10	$ -	$ (6)	$ 6
Fossil fuel plants dismantlement reserve	144	1	-	-	145
Nuclear refueling outage reserve	12	11	-	(21) [b]	2
DECEMBER 31, 2004					
Uncollectible accounts	$ 2	$ 5	$ -	$ (5)	$ 2
Fossil fuel plants dismantlement reserve	143	1	-	-	144
Nuclear refueling outage reserve	2	10	-	-	12

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

[b] Represents payments of actual expenditures related to the outages.

Exhibit A(6)(ii)

Item 1. Financial Statements

PROGRESS ENERGY, INC.
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
June 30, 2007

UNAUDITED CONSOLIDATED STATEMENTS of INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share data)	**2007**	2006	**2007**	2006
Operating revenues				
Electric	**$ 2,125**	$ 2,082	**$ 4,193**	$ 4,067
Diversified business	**281**	216	**547**	454
Total operating revenues	**2,406**	2,298	**4,740**	4,521
Operating expenses				
Utility				
Fuel used in electric generation	**716**	709	**1,452**	1,399
Purchased power	**283**	260	**504**	489
Operation and maintenance	**461**	417	**881**	833
Depreciation and amortization	**222**	234	**441**	462
Taxes other than on income	**125**	120	**249**	239
Other	**15**	–	**14**	(2)
Diversified business				
Cost of sales	**353**	227	**597**	483
Depreciation and amortization	**2**	10	**4**	19
Impairment of long-lived assets	**–**	91	**–**	91
Gain on the sales of assets	**(1)**	–	**(17)**	(4)
Other	**9**	20	**27**	34
Total operating expenses	**2,185**	2,088	**4,152**	4,043
Operating income	**221**	210	**588**	478
Other income				
Interest income	**6**	7	**14**	24
Other, net	**17**	10	**26**	8
Total other income	**23**	17	**40**	32
Interest charges				
Net interest charges	**141**	160	**285**	325
Allowance for borrowed funds used during construction	**(4)**	(2)	**(7)**	(4)
Total interest charges, net	**137**	158	**278**	321
Income from continuing operations before income tax and minority interest	**107**	69	**350**	189
Income tax expense	**2**	43	**21**	72
Income from continuing operations before minority interest	**105**	26	**329**	117
Minority interest in subsidiaries' (loss) income, net of tax	**(26)**	7	**(22)**	13
Income from continuing operations	**131**	19	**351**	104
Discontinued operations, net of tax	**(324)**	(66)	**(269)**	(106)
Net (loss) income	**$ (193)**	$ (47)	**$ 82**	$ (2)
Average common shares outstanding – basic	**256**	250	**255**	250
Basic earnings per common share				
Income from continuing operations	**$ 0.51**	$ 0.08	**$ 1.37**	$ 0.42
Discontinued operations, net of tax	**(1.26)**	(0.27)	**(1.05)**	(0.43)
Net (loss) income	**$ (0.75)**	$ (0.19)	**$ 0.32**	$ (0.01)
Diluted earnings per common share				

Income from continuing operations	$	**0.51**	$	0.08	$	**1.37**	$	0.42
Discontinued operations, net of tax		**(1.26)**		(0.27)		**(1.05)**		(0.43)
Net (loss) income	$	**(0.75)**	$	(0.19)	$	**0.32**	$	(0.01)
Dividends declared per common share	$	**0.610**	$	0.605	$	**1.220**	$	1.210

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

PROGRESS ENERGY, INC.

UNAUDITED CONSOLIDATED BALANCE SHEETS

(in millions)	June 30, 2007	December 31, 2006
ASSETS		
Utility plant		
Utility plant in service	$ 24,525	$ 23,743
Accumulated depreciation	(10,540)	(10,064)
Utility plant in service, net	13,985	13,679
Held for future use	10	10
Construction work in progress	1,456	1,289
Nuclear fuel, net of amortization	300	267
Total utility plant, net	15,751	15,245
Current assets		
Cash and cash equivalents	86	265
Short-term investments	1	71
Receivables, net	1,006	930
Inventory	1,035	969
Deferred fuel cost	228	196
Deferred income taxes	36	159
Assets of discontinued operations	33	887
Derivative assets	107	1
Prepayments and other current assets	291	107
Total current assets	2,823	3,585
Deferred debits and other assets		
Regulatory assets	1,061	1,231
Nuclear decommissioning trust funds	1,379	1,287
Diversified business property, net	43	31
Miscellaneous other property and investments	456	456
Goodwill	3,655	3,655
Other assets and deferred debits	234	211
Total deferred debits and other assets	6,828	6,871
Total assets	$ 25,402	$ 25,701
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 500 million shares authorized, 259 and 256 million shares issued and outstanding, respectively	$ 5,962	$ 5,791
Unearned ESOP shares (2 million shares)	(39)	(50)
Accumulated other comprehensive loss	(44)	(49)
Retained earnings	2,361	2,594
Total common stock equity	8,240	8,286
Preferred stock of subsidiaries – not subject to mandatory redemption	93	93
Minority interest	38	10
Long-term debt, affiliate	271	271
Long-term debt, net	8,165	8,564
Total capitalization	16,807	17,224
Current liabilities		
Current portion of long-term debt	749	324
Short-term debt	169	–
Accounts payable	761	712
Interest accrued	163	171
Dividends declared	158	156
Customer deposits	246	227
Liabilities of discontinued operations	9	189

Income taxes accrued		**10**		284
Other current liabilities		**714**		755
Total current liabilities		**2,979**		2,818
Deferred credits and other liabilities				
Noncurrent income tax liabilities		**243**		306
Accumulated deferred investment tax credits		**145**		151
Regulatory liabilities		**2,395**		2,543
Asset retirement obligations		**1,340**		1,306
Accrued pension and other benefits		**951**		957
Other liabilities and deferred credits		**542**		396
Total deferred credits and other liabilities		**5,616**		5,659
Commitments and contingencies (Notes 12 and 13)				
Total capitalization and liabilities	**$**	**25,402**	$	25,701

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

PROGRESS ENERGY, INC.

UNAUDITED CONSOLIDATED STATEMENTS of CASH FLOWS

(in millions) Six Months Ended June 30	2007	2006
Operating activities		
Net income (loss)	$ **82**	$ (2)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Discontinued operations, net of tax	**269**	106
Impairment of assets	**–**	91
Depreciation and amortization	**502**	529
Deferred income taxes	**57**	(25)
Investment tax credits	**(6)**	(6)
Tax levelization	**23**	19
Deferred fuel cost	**83**	170
Other adjustments to net income (loss)	**(11)**	115
Cash (used) provided by changes in operating assets and liabilities		
Receivables	**(16)**	63
Inventory	**(56)**	(110)
Prepayments and other current assets	**(71)**	(17)
Accounts payable	**54**	14
Changes in income taxes, net	**(507)**	(61)
Other current liabilities	**22**	40
Regulatory assets and liabilities	**11**	4
Other assets and deferred debits	**(27)**	21
Other liabilities and deferred credits	**(24)**	(6)
Net cash provided by operating activities	**385**	945
Investing activities		
Gross utility property additions	**(895)**	(669)
Diversified business property additions	**(3)**	(1)
Nuclear fuel additions	**(97)**	(62)
Proceeds from sales of discontinued operations and other assets, net of cash divested	**647**	221
Purchases of available-for-sale securities and other investments	**(382)**	(956)
Proceeds from sales of available-for-sale securities and other investments	**433**	1,126
Other investing activities	**(7)**	(14)
Net cash used by investing activities	**(304)**	(355)
Financing activities		
Issuance of common stock	**122**	60
Proceeds from issuance of long-term debt, net	**–**	397
Net increase (decrease) in short-term debt	**169**	(175)
Retirement of long-term debt	**(2)**	(802)
Dividends paid on common stock	**(311)**	(303)
Cash distributions to minority interests of consolidated subsidiary	**(10)**	(74)
Other financing activities	**(17)**	(41)
Net cash used by financing activities	**(49)**	(938)
Cash (used) provided by discontinued operations		
Operating activities	**(210)**	105
Investing activities	**(1)**	(98)
Net decrease in cash and cash equivalents	**(179)**	(341)
Cash and cash equivalents at beginning of period	**265**	605
Cash and cash equivalents at end of period	$ **86**	$ 264
Supplemental disclosures		
Significant non-cash transactions:		
Capital lease obligation incurred	$ **182**	$ –
Non-cash property additions accrued for as of June 30	$ **175**	$ 92

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

CAROLINA POWER & LIGHT COMPANY
d/b/a PROGRESS ENERGY CAROLINAS, INC.
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
June 30, 2007

UNAUDITED CONSOLIDATED STATEMENTS of INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2007**	2006	**2007**	2006
Operating revenues				
Electric	$ **996**	$ 935	$ **2,053**	$ 1,913
Diversified business	–	1	**1**	1
Total operating revenues	**996**	936	**2,054**	1,914
Operating expenses				
Fuel used in electric generation	**305**	262	**656**	558
Purchased power	**76**	80	**134**	144
Operation and maintenance	**268**	248	**516**	504
Depreciation and amortization	**118**	129	**235**	255
Taxes other than on income	**49**	44	**99**	90
Other	–	(1)	**(1)**	–
Total operating expenses	**816**	762	**1,639**	1,551
Operating income	**180**	174	**415**	363
Other income (expense)				
Interest income	**5**	4	**11**	11
Other, net	**7**	(1)	**10**	(2)
Total other income	**12**	3	**21**	9
Interest charges				
Interest charges	**54**	57	**111**	114
Allowance for borrowed funds used during construction	**(1)**	–	**(2)**	(1)
Total interest charges, net	**53**	57	**109**	113
Income before income tax	**139**	120	**327**	259
Income tax expense	**51**	44	**115**	97
Net income	**88**	76	**212**	162
Preferred stock dividend requirement	–	–	**1**	1
Earnings for common stock	$ **88**	$ 76	$ **211**	$ 161

See Notes to PEC Consolidated Interim Financial Statements.

CAROLINA POWER & LIGHT COMPANY

d/b/a PROGRESS ENERGY CAROLINAS, INC.

UNAUDITED CONSOLIDATED BALANCE SHEETS

(in millions)	June 30, 2007	December 31, 2006
ASSETS		
Utility plant		
Utility plant in service	$ 14,815	$ 14,356
Accumulated depreciation	(6,815)	(6,408)
Utility plant in service, net	8,000	7,948
Held for future use	3	3
Construction work in progress	503	617
Nuclear fuel, net of amortization	220	209
Total utility plant, net	8,726	8,777
Current assets		
Cash and cash equivalents	48	71
Short-term investments	1	50
Receivables, net	467	473
Receivables from affiliated companies	18	27
Note receivable from affiliated company	–	24
Inventory	524	497
Deferred fuel cost	221	196
Prepayments and other current assets	8	45
Total current assets	1,287	1,383
Deferred debits and other assets		
Regulatory assets	730	777
Nuclear decommissioning trust funds	790	735
Miscellaneous other property and investments	195	193
Other assets and deferred debits	139	155
Total deferred debits and other assets	1,854	1,860
Total assets	$ 11,867	$ 12,020
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 200 million shares authorized, 160 million shares issued and outstanding	$ 2,037	$ 2,010
Unearned ESOP common stock	(39)	(50)
Accumulated other comprehensive loss	(4)	(1)
Retained earnings	1,560	1,431
Total common stock equity	3,554	3,390
Preferred stock – not subject to mandatory redemption	59	59
Long-term debt, net	3,182	3,470
Total capitalization	6,795	6,919
Current liabilities		
Current portion of long-term debt	500	200
Notes payable to affiliated companies	5	–
Accounts payable	271	310
Payables to affiliated companies	64	108
Interest accrued	63	69
Customer deposits	65	59
Income taxes accrued	36	68
Current portion of unearned revenue	38	71
Other current liabilities	202	154
Total current liabilities	1,244	1,039
Deferred credits and other liabilities		

Noncurrent income tax liabilities		**858**		909
Accumulated deferred investment tax credits		**124**		128
Regulatory liabilities		**1,104**		1,320
Asset retirement obligations		**1,033**		1,004
Accrued pension and other benefits		**585**		581
Other liabilities and deferred credits		**124**		120
Total deferred credits and other liabilities		**3,828**		4,062
Commitments and contingencies (Notes 12 and 13)				
Total capitalization and liabilities	**$**	**11,867**	$	12,020

See Notes to PEC Consolidated Interim Financial Statements.

CAROLINA POWER & LIGHT COMPANY

d/b/a PROGRESS ENERGY CAROLINAS, INC.

UNAUDITED CONSOLIDATED STATEMENTS of CASH FLOWS

(in millions)

Six Months Ended June 30	2007	2006
Operating activities		
Net income	$ 212	$ 162
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	277	295
Deferred income taxes and investment tax credits, net	27	36
Deferred fuel cost	33	7
Other adjustments to net income	(28)	69
Cash provided (used) by changes in operating assets and liabilities		
Receivables	8	76
Receivables from affiliated companies	9	20
Inventory	(20)	(36)
Prepayments and other current assets	5	5
Accounts payable	(1)	11
Payables to affiliated companies	(44)	(11)
Other current liabilities	(22)	(115)
Other assets and deferred debits	(4)	19
Other liabilities and deferred credits	2	(35)
Net cash provided by operating activities	454	503
Investing activities		
Gross utility property additions	(407)	(307)
Nuclear fuel additions	(75)	(56)
Purchases of available-for-sale securities and other investments	(226)	(453)
Proceeds from sales of available-for-sale securities and other investments	260	578
Changes in advances to affiliates	24	–
Other investing activities	(2)	(3)
Net cash used by investing activities	(426)	(241)
Financing activities		
Net decrease in short-term debt	–	(73)
Changes in advances from affiliates	5	12
Dividends paid to parent	(72)	(169)
Dividends paid on preferred stock	(1)	(1)
Other financing activities	17	–
Net cash used by financing activities	(51)	(231)
Net (decrease) increase in cash and cash equivalents	(23)	31
Cash and cash equivalents at beginning of period	71	125
Cash and cash equivalents at end of period	$ 48	$ 156
Supplemental disclosures		
Significant non-cash transactions:		
Non-cash property additions accrued for as of June 30	$ 72	$ 35

See Notes to PEC Consolidated Interim Financial Statements.

FLORIDA POWER CORPORATION
d/b/a PROGRESS ENERGY FLORIDA, INC.
INTERIM FINANCIAL STATEMENTS
June 30, 2007

UNAUDITED STATEMENTS of INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2007**	2006	**2007**	2006
Operating revenues	**$ 1,129**	$ 1,147	**$ 2,140**	$ 2,154
Operating expenses				
Fuel used in electric generation	**411**	447	**796**	841
Purchased power	**207**	180	**370**	345
Operation and maintenance	**198**	178	**373**	344
Depreciation and amortization	**100**	98	**197**	193
Taxes other than on income	**76**	76	**150**	149
Other	**12**	1	**12**	(2)
Total operating expenses	**1,004**	980	**1,898**	1,870
Operating income	**125**	167	**242**	284
Other income				
Interest income	**1**	3	**2**	8
Other, net	**8**	3	**15**	2
Total other income	**9**	6	**17**	10
Interest charges				
Interest charges	**42**	40	**81**	80
Allowance for borrowed funds used during construction	**(3)**	(2)	**(5)**	(3)
Total interest charges, net	**39**	38	**76**	77
Income before income tax	**95**	135	**183**	217
Income tax expense	**27**	48	**54**	77
Net income	**68**	87	**129**	140
Preferred stock dividend requirement	**–**	–	**1**	1
Earnings for common stock	**$ 68**	$ 87	**$ 128**	$ 139

See Notes to PEF Interim Financial Statements.

FLORIDA POWER CORPORATION

d/b/a PROGRESS ENERGY FLORIDA, INC.

UNAUDITED BALANCE SHEETS

(in millions)	June 30, 2007	December 31, 2006
ASSETS		
Utility plant		
Utility plant in service	$ 9,525	$ 9,202
Accumulated depreciation	(3,668)	(3,602)
Utility plant in service, net	5,857	5,600
Held for future use	7	7
Construction work in progress	953	672
Nuclear fuel, net of amortization	80	58
Total utility plant, net	6,897	6,337
Current assets		
Cash and cash equivalents	14	23
Receivables, net	349	340
Receivables from affiliated companies	12	11
Deferred income taxes	62	86
Inventory	481	436
Income taxes receivable	–	47
Prepayments and other current assets	24	62
Total current assets	942	1,005
Deferred debits and other assets		
Regulatory assets	331	454
Nuclear decommissioning trust funds	589	552
Miscellaneous other property and investments	46	45
Prepaid pension cost	186	174
Other assets and deferred debits	54	26
Total deferred debits and other assets	1,206	1,251
Total assets	$ 9,045	$ 8,593
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 60 million shares authorized, 100 shares issued and outstanding	$ 1,103	$ 1,100
Accumulated other comprehensive income (loss)	1	(1)
Retained earnings	1,714	1,588
Total common stock equity	2,818	2,687
Preferred stock – not subject to mandatory redemption	34	34
Long-term debt, net	2,388	2,468
Total capitalization	5,240	5,189
Current liabilities		
Current portion of long-term debt	169	89
Notes payable to affiliated companies	4	47
Accounts payable	414	292
Payables to affiliated companies	44	116
Customer deposits	181	168
Interest accrued	37	38
Derivative liabilities	45	89
Current regulatory liabilities	141	76
Other current liabilities	173	89
Total current liabilities	1,208	1,004
Deferred credits and other liabilities		
Noncurrent income tax liabilities	441	466

Accumulated deferred investment tax credits		**21**		23
Regulatory liabilities		**1,162**		1,091
Asset retirement obligations		**307**		299
Accrued pension and other benefits		**331**		332
Other liabilities and deferred credits		**335**		189
Total deferred credits and other liabilities		**2,597**		2,400
Commitments and contingencies (Notes 12 and 13)				
Total capitalization and liabilities	**$**	**9,045**	$	8,593

See Notes to PEF Interim Financial Statements.

FLORIDA POWER CORPORATION

d/b/a PROGRESS ENERGY FLORIDA, INC.

UNAUDITED STATEMENTS of CASH FLOWS

(in millions) Six Months Ended June 30		**2007**		2006
Operating activities				
Net income	**$**	**129**	$	140
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization		**210**		207
Deferred income taxes and investment tax credits, net		**(19)**		(22)
Deferred fuel cost		**50**		163
Other adjustments to net income		**23**		10
Cash (used) provided by changes in operating assets and liabilities				
Receivables		**(13)**		(43)
Receivables from affiliated companies		**(1)**		2
Inventory		**(42)**		(87)
Prepayments and other current assets		**58**		8
Accounts payable		**104**		51
Payables to affiliated companies		**(72)**		(21)
Other current liabilities		**136**		81
Other assets and deferred debits		**(1)**		–
Other liabilities and deferred credits		**(15)**		(2)
Net cash provided by operating activities		**547**		487
Investing activities				
Gross utility property additions		**(489)**		(371)
Nuclear fuel additions		**(22)**		(6)
Purchases of available-for-sale securities and other investments		**(103)**		(329)
Proceeds from sales of available-for-sale securities and other investments		**103**		284
Other investing activities		**–**		4
Net cash used by investing activities		**(511)**		(418)
Financing activities				
Net decrease in short-term debt		**–**		(102)
Retirement of long-term debt		**(2)**		(2)
Changes in advances from affiliates		**(43)**		11
Dividends paid to parent		**–**		(118)
Dividends paid on preferred stock		**(1)**		(1)
Other financing activities		**1**		2
Net cash used by financing activities		**(45)**		(210)
Net decrease in cash and cash equivalents		**(9)**		(141)
Cash and cash equivalents at beginning of period		**23**		218
Cash and cash equivalents at end of period	**$**	**14**	**$**	77
Supplemental disclosures				
Significant non-cash transactions:				
Capital lease obligation incurred	**$**	**182**	$	–
Non-cash property additions accrued for as of June 30	**$**	**103**	$	44

See Notes to PEF Interim Financial Statements.

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

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

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

Registrant	Applicable Notes
PEC	1, 2, 4 through 9, and 11 through 13
PEF	1, 2, 4 through 9, and 11 through 13

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

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

Our reportable operating segments are: PEC, PEF and Coal and Synthetic Fuels. Our PEC and PEF segments are primarily engaged in the generation, transmission, distribution and sale of electricity. Our Coal and Synthetic Fuels segment is primarily engaged in the production and sale of coal-based solid synthetic fuels as defined under the Internal Revenue Code (the Code), the operation of synthetic fuels facilities for third parties, and coal terminal services. Our Corporate and Other segment (Corporate and Other) is comprised of the activities of the Parent and Progress Energy Service Company (PESC) as well as nonregulated businesses, which do not separately meet the disclosure requirements as a business segment.

PEC and PEF are regulated public utilities. PEC's service territory covers portions of North Carolina and South Carolina and PEF's covers portions of Florida. PEC's subsidiaries are involved in insignificant nonregulated business activities. PEC is subject to the regulatory provisions of the North Carolina Utilities Commission (NCUC) and the Public Service Commission of South Carolina (SCPSC); PEF is subject to the regulatory provisions of the Florida Public Service Commission (FPSC). Both of the Utilities are also subject to regulation by the United States Nuclear Regulatory Commission (NRC) and the FERC.

B. Basis of Presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. The December 31, 2006 condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. Because the accompanying interim financial statements do not include all of the information and footnotes required by GAAP for annual financial statements, they should be read in conjunction with the audited financial statements and notes thereto included in the Progress Registrants' annual report on Form 10-K for the

fiscal year ended December 31, 2006 (2006 Form 10-K).

In accordance with the provisions of Accounting Principles Board Opinion No. 28, "Interim Financial Reporting," GAAP requires companies to apply a levelized effective tax rate to interim periods that is consistent with the estimated annual effective tax rate. The intra-period tax allocation, which will have no impact on total year net income, maintains an effective tax rate consistent with the estimated annual effective tax rate. The fluctuations in the effective tax rate for interim periods are primarily due to the recognition of synthetic fuels tax credits and seasonal fluctuations in energy sales and earnings from the Utilities. Income tax expense was increased (decreased) for the Progress Registrants for the three and six months ended June 30, 2007 and 2006, as follows:

(in millions)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Progress Energy	**$ 31**	$ 3	**$ 23**	$ 19
PEC	**–**	(2)	**(1)**	(1)
PEF	**1**	–	**1**	–

The Utilities collect from customers certain excise taxes levied by the state or local government upon the customers. The Utilities account for sales and use tax on a net basis and gross receipts tax, franchise taxes and other excise taxes on a gross basis. The amount of gross receipts tax, franchise taxes and other excise taxes included in electric operating revenues and taxes other than on income in the statements of income were as follows:

(in millions)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Progress Energy	**$ 71**	$ 69	**$ 137**	$ 134
PEC	**24**	21	**48**	43
PEF	**47**	48	**9**	91

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

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

Certain amounts for 2006 have been reclassified to conform to the 2007 presentation.

C. Consolidation of Variable Interest Entities

We consolidate all voting interest entities in which we own a majority voting interest and all variable interest entities for which we are the primary beneficiary in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51" (FIN 46R).

Progress Energy

In March 2007, we disposed of our 100 percent ownership interest in Ceredo Synfuel LLC (Ceredo), a coal-based solid synthetic fuels production facility that qualifies for federal tax credits under Section 45K of the Code, to a third-party buyer. Progress Energy, through its subsidiary Progress Fuels Corporation (Progress Fuels), is the primary beneficiary of, and continues to consolidate Ceredo. At June 30, 2007, the total assets of Ceredo were $41 million and were included in

other current assets in the Consolidated Balance Sheets. See Note 3I for additional information on the disposal of Ceredo.

In addition to the variable interests listed below for PEC and PEF, we have interests through other subsidiaries in several variable interest entities for which we are not the primary beneficiary. These arrangements include investments in five limited liability partnerships and limited liability corporations. At June 30, 2007, the aggregate additional maximum loss exposure that we could be required to record in our income statement as a result of these arrangements was $6 million, which represents our net remaining investment in the entities. The creditors of these variable interest entities do not have recourse to our general credit in excess of the aggregate maximum loss exposure.

PEC

PEC is the primary beneficiary of, and consolidates, two limited partnerships that qualify for federal affordable housing and historic tax credits under Section 42 of the Code. At June 30, 2007, the assets of the two entities totaled $37 million, the majority of which are collateral for the entities' obligations, and were included in miscellaneous other property and investments in the Consolidated Balance Sheets.

PEC has an interest in and consolidates one limited partnership that invests in 17 low-income housing partnerships that qualify for federal and state tax credits. PEC also has an interest in one power plant resulting from long-term power purchase contracts. PEC has requested the necessary information to determine if the 17 partnerships and the power plant owner are variable interest entities or to identify the primary beneficiaries; all entities from which the necessary financial information was requested declined to provide the information to PEC and accordingly, PEC has applied the information scope exception in FIN 46R, paragraph 4(g), to the 17 partnerships and the power plant. PEC believes that if it is determined to be the primary beneficiary of these entities, the effect of consolidating the entities would result in increases to total assets, long-term debt and other liabilities, but would have an insignificant or no impact on PEC's common stock equity, net earnings or cash flows. However, because PEC has not received any financial information from the counterparties, the impact cannot be determined at this time.

PEC also has interests in several other variable interest entities for which PEC is not the primary beneficiary. These arrangements include investments in 20 limited liability partnerships, limited liability corporations and venture capital funds and two building leases with special-purpose entities. At June 30, 2007, the aggregate maximum loss exposure that PEC could be required to record on its income statement as a result of these arrangements totals approximately $20 million, which primarily represents its net remaining investment in these entities. The creditors of these variable interest entities do not have recourse to the general credit of PEC in excess of the aggregate maximum loss exposure. See Note 1 in the 2006 Form 10-K for additional information.

PEF

PEF has interests in three variable interest entities for which PEF is not the primary beneficiary. These arrangements include investments in one operating lease, one venture capital fund and one building lease with a special-purpose entity. At June 30, 2007, the aggregate maximum loss exposure that PEF could be required to record in its income statement as a result of these arrangements was $56 million. The majority of this exposure is related to a prepayment clause in the building lease and is not considered equity at risk. The creditors of these variable interest entities do not have recourse to the general credit of PEF in excess of the aggregate maximum loss exposure.

2. NEW ACCOUNTING STANDARD

Refer to Note 7 for information regarding our first quarter 2007 implementation of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48).

In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115" (SFAS No. 159), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The decision about whether to elect the fair value option is applied on an instrument by instrument basis, is irrevocable (unless a new election date occurs), and is applied to the entire financial instrument. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15,

2007, which for us is January 1, 2008. The adoption of SFAS No. 159 is not expected to have a material impact on our or the Utilities' financial position or results of operations.

3. DIVESTITURES

A. CCO – Georgia Region

On March 9, 2007, our subsidiary, Progress Ventures, Inc. (PVI), entered into a series of transactions to sell or assign substantially all of its Competitive Commercial Operations (CCO) physical and commercial assets and liabilities. Assets divested include approximately 1,900 megawatts (MW) of gas-fired generation assets in Georgia. The sale of the generation assets closed on June 11, 2007, for a net sales price of $615 million. We recorded an estimated loss of $226 million in December 2006. Based on the terms of the final agreement, during the quarter

ended March 31, 2007, we reversed $16 million after-tax of the impairment recorded in 2006. During the quarter ended June 30, 2007, we reversed an additional $1 million after-tax of the impairment as a result of closing adjustments.

Additionally, on June 1, 2007, PVI closed the transaction involving the assignment of a contract portfolio consisting of full-requirements contracts with 16 Georgia electric membership cooperatives (the Georgia Contracts), forward gas and power contracts, gas transportation, structured power and other contracts to a third party. This represents substantially all of our nonregulated energy marketing and trading operations. As a result of the assignments, PVI made a net cash payment of $347 million, which represents the net cost to assign the Georgia Contracts and other related contracts. In the quarter ended June 30, 2007, we recorded a charge associated with the costs to exit the Georgia Contracts, and other related contracts, of $349 million after-tax (charge included in the net loss from discontinued operations in the table below).

The accompanying consolidated financial statements have been restated for all periods presented to reflect the operations of CCO as discontinued operations. Interest expense has been allocated to discontinued operations based on their respective net assets, assuming a uniform debt-to-equity ratio across our operations. Pre-tax interest expense allocated for the six months ended June 30, 2007 and 2006, was $11 million and $19 million, respectively. Pre-tax interest expense allocated for the three months ended June 30, 2007 and 2006, was $5 million and $9 million, respectively. We ceased recording depreciation upon classification of the assets as discontinued operations in December 2006. After-tax depreciation expense during the three and six months ended June 30, 2006, was $4 million and $7 million, respectively. Results of CCO discontinued operations for the three and six months ended June 30 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2007**	2006	**2007**	2006
Revenues	**$ 154**	$ 156	**$ 406**	$ 344
Loss before income taxes	**(513)**	(23)	**(443)**	(118)
Income tax benefit	**191**	8	**164**	44
Net loss from discontinued operations	**(322)**	(15)	**(279)**	(74)
Reversal of estimated loss on disposal of discontinued operations, including income tax benefit of $5 and $7, respectively	**1**	–	**17**	–
Loss from discontinued operations	**$ (321)**	$ (15)	**$ (262)**	$ (74)

B. Natural Gas Drilling and Production

On October 2, 2006, we sold our natural gas drilling and production business (Gas) to EXCO Resources, Inc. for approximately $1.1 billion in net proceeds. Gas included Winchester Production Company, Ltd. (Winchester Production), Westchester Gas Company, Texas Gas Gathering and Talco Midstream Assets Ltd.; all were subsidiaries of Progress Fuels. Proceeds from the sale have been used primarily to reduce holding company debt and for other corporate purposes.

Based on the net proceeds associated with the sale, we recorded an after-tax net gain on disposal of $300 million during the year ended December 31, 2006. We recorded an after-tax loss of $1 million during the three months ended March 31, 2007, primarily related to working capital adjustments.

The accompanying consolidated financial statements have been restated for all periods presented to reflect all the

operations of Gas as discontinued operations. Interest expense has been allocated to discontinued operations based on their respective net assets, assuming a uniform debt-to-equity ratio across our operations. Pre-tax interest expense allocated for the three and six months ended June 30, 2006, was $4 million and $9 million, respectively. We ceased recording depreciation upon classification of the assets as discontinued operations in July 2006. After-tax depreciation expense during the three and six months ended June 30, 2006, was $8 million and $16 million, respectively. Results of Gas discontinued operations for the three and six months ended June 30 were as follows:

(in millions)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Revenues	$ –	$ 61	$ –	$ 92
Earnings before income taxes	–	11	–	50
Income tax expense	–	(5)	–	(23)
Net earnings from discontinued operations	–	6	–	27
Loss on disposal of discontinued operations, including income tax benefit of $1	–	–	(1)	–
Earnings (loss) from discontinued operations	$ –	$ 6	$ (1)	$ 27

C. CCO – DeSoto and Rowan Generation Facilities

On May 2, 2006, our board of directors approved a plan to divest of two subsidiaries of PVI, DeSoto County Generating Co., LLC (DeSoto) and Rowan County Power, LLC (Rowan). DeSoto owns a 320 MW dual-fuel combustion turbine electric generation facility in DeSoto County, Fla., and Rowan owns a 925 MW dual-fuel combined cycle and combustion turbine electric generation facility in Rowan County, N.C. On May 8, 2006, we entered into definitive agreements to sell DeSoto and Rowan, including certain existing power supply contracts, to Southern Power Company, a subsidiary of Southern Company, for gross sales prices of approximately $80 million and $325 million, respectively. We used the proceeds from the sales to reduce debt and for other corporate purposes.

The sale of DeSoto closed in the second quarter of 2006 and the sale of Rowan closed during the third quarter of 2006. Based on the gross proceeds associated with the sales, we recorded an after-tax loss on disposal of $67 million during the year ended December 31, 2006.

The accompanying consolidated financial statements have been restated for all periods presented to reflect the operations of DeSoto and Rowan as discontinued operations. Interest expense has been allocated to discontinued operations based on their respective net assets, assuming a uniform debt-to-equity ratio across our operations. Pre-tax interest expense allocated for the three and six months ended June 30, 2006, was $3 million and $7 million, respectively. We ceased recording depreciation upon classification of the assets as discontinued operations in May 2006. After-tax depreciation expense during the three and six months ended June 30, 2006, was $1 million and $3 million, respectively. Results of DeSoto and Rowan discontinued operations for the three and six months ended June 30 were as follows:

(in millions)	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Revenues	$ 8	$ 14
Loss before income taxes	(11)	(15)
Income tax benefit	5	6
Net loss from discontinued operations	(6)	(9)

Loss on disposal of discontinued operations, including

income tax benefit of $35		(59)	(59)
Loss from discontinued operations	$	(65) $	(68)

D. Progress Telecom, LLC

On March 20, 2006, we completed the sale of Progress Telecom, LLC (PT LLC) to Level 3 Communications, Inc. (Level 3). We received gross proceeds comprised of cash of $69 million and approximately 20 million shares of Level 3 common stock valued at an estimated $66 million on the date of the sale. Our net proceeds from the sale of approximately $70 million, after consideration of minority interest, were used to reduce debt. Prior to the sale, we had a 51 percent interest in PT LLC. See Note 11 for a discussion of the subsequent sale of the Level 3 stock.

Based on the net proceeds associated with the sale and after consideration of minority interest, we recorded an after-tax net gain on disposal of $24 million during the three months ended March 31, 2006. During the three months ended June 30, 2006, we recorded an additional after-tax gain of $5 million in connection with certain tax matters resulting in a total after-tax gain of $29 million for the six months ended June 30, 2006. The accompanying consolidated financial statements have been restated for all periods presented to reflect the operations of PT LLC as discontinued operations. We ceased recording depreciation upon classification of the assets as discontinued operations in January 2006. After-tax depreciation expense during the six months ended June 30, 2006, was $1 million. Results of PT LLC discontinued operations for the three and six months ended June 30 were as follows:

(in millions)	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Revenues	$ –	$ 18
Earnings before income taxes	2	3
Income tax expense	–	(4)
Minority interest	(1)	(4)
Net earnings (loss) from discontinued operations	1	(5)
Gain on disposal of discontinued operations, including income tax benefit (expense) of $4 and $(9), respectively, and minority interest of $- and $36, respectively	5	29
Earnings from discontinued operations	$ 6	$ 24

In connection with the sale, PEC and PEF provided indemnification against costs associated with certain asset performances to Level 3. See general discussion of guarantees at Note 13A. The ultimate resolution of these matters could result in adjustments to the gain on sale in future periods.

E. <u>Dixie Fuels and Other Fuels Business</u>

On March 1, 2006, we sold our 65 percent interest in Dixie Fuels Limited (Dixie Fuels) to Kirby Corporation for $16 million in cash. Dixie Fuels operates a fleet of four ocean-going dry-bulk barge and tugboat units. Dixie Fuels primarily transports coal from the lower Mississippi River to Progress Energy's Crystal River facility. We recorded an after-tax gain of $2 million on the sale of Dixie Fuels.

The accompanying consolidated financial statements have been restated for all periods presented to reflect Dixie Fuels and the other fuels business as discontinued operations. Interest expense has been allocated to discontinued operations based on their respective net assets, assuming a uniform debt-to-equity ratio across our operations. Pre-tax interest expense allocated was less than $1 million for the three months ended June 30, 2006, and for the six months ended June 30, 2007 and 2006. We ceased recording depreciation upon classification of the assets as discontinued operations. After-tax depreciation expense during the six months ended June 30, 2006 was less than $1 million. Results of Dixie Fuels and other fuels business discontinued operations for the three and six months ended June 30 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2007**	2006	**2007**	2006

Revenues	$ –	$ –	$ –	$ 5
Earnings before income taxes	–	1	1	4
Income tax expense	–	–	(1)	(1)
Net earnings from discontinued operations	–	1	–	3
Gain on disposal of discontinued operations, including income tax expense of $1	1	–	2	2
Earnings from discontinued operations	$ 1	$ 1	$ 2	$ 5

F. Coal Mining Businesses

On November 14, 2005, our board of directors approved a plan to divest of five subsidiaries of Progress Fuels engaged in the coal mining business (Coal Mining). On May 1, 2006, we sold certain net assets of three of our coal mining businesses to Alpha Natural Resources, LLC for gross proceeds of $23 million plus a $4 million working capital adjustment. As a result, during the six months ended June 30, 2006, we recorded an after-tax loss of $13 million on the sale of these assets. The remaining coal mining operations are expected to be sold in 2007.

The accompanying consolidated financial statements have been restated for all periods presented to reflect Coal Mining as discontinued operations. Interest expense has been allocated to discontinued operations based on the net assets of the coal mines, assuming a uniform debt-to-equity ratio across our operations. Pre-tax interest expense allocated for the six months ended June 30, 2006, was $1 million. There was less than $1 million allocated for the three months ended June 30, 2007 and 2006, and for the six months ended June 30, 2007. We ceased recording depreciation expense upon classification of Coal Mining as discontinued operations in November 2005. Results of Coal Mining discontinued operations for the three and six months ended June 30 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2007**	2006	**2007**	2006
Revenues	**$ 7**	$ 24	**$ 14**	$ 59
(Loss) earnings before income taxes	**(5)**	2	**(11)**	(5)
Income tax benefit (expense)	**1**	(1)	**3**	1
Net (loss) earnings from discontinued operations	**(4)**	1	**(8)**	(4)
Gain (loss) on disposal of discontinued operations, including income tax benefit of $9 and $17, respectively	**–**	3	**–**	(13)
(Loss) earnings from discontinued operations	**$ (4)**	$ 4	**$ (8)**	$ (17)

G. Progress Rail Divestiture

On March 24, 2005, we completed the sale of Progress Rail Services Corporation (Progress Rail) to One Equity Partners LLC, a private equity firm unit of J.P. Morgan Chase & Co. Gross cash proceeds from the sale were approximately $429 million, consisting of $405 million base proceeds plus a working capital adjustment. Proceeds from the sale were used to reduce debt.

During the three and six months ended June 30, 2006, we recorded after-tax loss on disposal of $3 million (including income tax benefit of $2 million) in connection with guarantees and indemnifications provided by Progress Fuels and Progress Energy for certain legal, tax and environmental matters to One Equity Partners, LLC. The ultimate resolution of these matters could result in adjustments to the loss on disposal in future periods. See general discussion of guarantees at Note 13A.

The accompanying consolidated financial statements reflect the operations of Progress Rail as discontinued operations.

H. Net Assets of Discontinued Operations

At June 30, 2007, the remaining assets and liabilities of Coal Mining were included in net assets of discontinued operations. At December 31, 2006, the assets and liabilities of CCO and the remaining assets and liabilities of Coal Mining and other fuels business were included in net assets of discontinued operations. The major balance sheet classes included in assets and liabilities of discontinued operations in the Consolidated Balance Sheets were as follows:

(in millions)	June 30, 2007	December 31, 2006
Accounts receivable	$ –	$ 45
Inventory	6	24
Other current assets	2	28
Total property, plant and equipment, net	17	573
Total other assets	8	217
Assets of discontinued operations	$ 33	$ 887
Accounts payable	$ –	$ 43
Accrued expenses	2	122
Long-term liabilities	7	24
Liabilities of discontinued operations	$ 9	$ 189

I. Ceredo Synthetic Fuels Interests

On March 30, 2007, our Progress Fuels subsidiary disposed of its 100 percent ownership interest in Ceredo, a subsidiary that produces and sells qualifying coal-based solid synthetic fuels, to a third-party buyer. In addition, we entered into an agreement to operate the Ceredo facility on behalf of the buyer. At closing, we received cash proceeds of $10 million and a non-recourse note receivable of $54 million. Payments on the note are expected to be received as we produce and sell qualifying synthetic fuels on behalf of the buyer during 2007. As of June 30, 2007, we have received payments of $2 million on the note. Actual proceeds could differ based on actual production levels, which shall be determined by the buyer. The estimated production level of Ceredo subsequent to the transaction is 2.8 million tons. The note bears interest at a rate equal to the three-month London Inter Bank Offering Rate (LIBOR) rate plus 1%. The estimated fair value of the note at the inception of the transaction was $48 million.

Pursuant to the terms of the disposal agreement, the buyer has the right to unwind the transaction if an Internal Revenue Service (IRS) reconfirmation private letter ruling is not received by November 9, 2007, or if certain adverse changes in tax law, as defined in the agreement, occur before November 19, 2007. Therefore, no gain on the disposal will be recognized prior to the expiration of these rights. Once these rights expire, deferred gains from the disposal will be recognized over time as we produce and sell qualifying synthetic fuels for the buyer. The reconfirmation private letter ruling request has been submitted to the IRS.

On the date of the transaction, the carrying value of the disposed ownership interest totaled $37 million, which consisted primarily of the fair value of crude oil call options purchased in January 2007. Subsequent to the disposal, we remain the primary beneficiary of Ceredo and continue to consolidate Ceredo in accordance with FIN 46R, but we have recorded a 100 percent minority interest. Consequently, there is no net earnings impact from Ceredo's operations subsequent to the disposal. In connection with the disposal, Progress Fuels and Progress Energy provided guarantees and indemnifications for certain legal and tax matters to the buyer which reduces the deferred gain. The ultimate resolution of these matters could result in adjustments to the gain on disposal in future periods. See general discussion of guarantees at Note 13A.

4. REGULATORY MATTERS

A. PEC Retail Rate Matters

BASE RATES

PEC's base rates are subject to the regulatory jurisdiction of the NCUC and SCPSC. In June 2002, the North Carolina Clean Smokestacks Act (Clean Smokestacks Act) was enacted in North Carolina requiring the state's electric utilities to reduce the emissions of nitrogen oxide (NOx) and sulfur dioxide (SO_2) from their North Carolina coal-fired power plants in phases by 2013. The Clean Smokestacks Act freezes North Carolina electric utility base rates for a five-year period ending in December 2007, unless there are extraordinary events beyond the control of the utilities or unless the utilities persistently earn a return substantially in excess of the rate of return established and

found reasonable by the NCUC in the respective utility's last general rate case. Subsequent to 2007, PEC's current North Carolina base rates will continue subject to traditional cost-based rate regulation.

During the rate freeze period, the legislation provides for a minimum amortization and recovery of 70 percent of the original estimated compliance costs of $813 million (or $569 million) while providing significant flexibility in the amount of annual amortization recorded from none up to $174 million per year. For the three and six months ended June 30, 2007, PEC recognized amortization of $8 million and $17 million, respectively. For the three and six months ended June 30, 2006, PEC recognized amortization of $22 million and $44 million, respectively. PEC has recognized $552 million in cumulative amortization through June 30, 2007. We will record at least the remaining amortization requirement of $17 million during the six-month period ending December 31, 2007.

On March 23, 2007, PEC filed a petition with the NCUC requesting that it be allowed to amortize the remaining 30 percent (or $244 million) of the original estimated compliance costs for the Clean Smokestacks Act during 2008 and 2009, with discretion to amortize up to $174 million in either year. Additionally, among other things, PEC requested that the NCUC allow PEC to include in its rate base those eligible compliance costs exceeding the original estimated compliance costs and that PEC be allowed to accrue allowance for funds used during construction (AFUDC) on all eligible compliance costs in excess of the original estimated compliance costs. PEC also requested that any prudency review of PEC's environmental compliance costs be deferred until PEC's next ratemaking proceeding in which PEC seeks to adjust its base rates. The NCUC has scheduled a hearing for October 30, 2007, and deferred any prudence review of costs incurred until a future rate-making proceeding. We cannot predict the outcome of this matter.

See Note 12B for additional information about the Clean Smokestacks Act.

FUEL COST RECOVERY

On May 2, 2007, PEC filed with the SCPSC for an increase in the fuel rate charged to its South Carolina ratepayers. PEC asked the SCPSC to approve a $12 million increase in fuel rates for under-recovered fuel costs associated with prior year settlements and to meet future expected fuel costs. On June 27, 2007, the SCPSC approved a settlement agreement filed jointly by PEC and all other parties to the proceedings. The settlement agreement resolved all issues and provided for a $12 million increase in fuel rates. Effective July 1, 2007, residential electric bills increased by $1.83 per 1,000 kWhs, or 1.9 percent, for fuel cost recovery.

On June 8, 2007, PEC filed with the NCUC for an increase in the fuel rate charged to its North Carolina ratepayers. PEC asked the NCUC to approve a $48 million increase in fuel rates for under-recovered fuel costs associated with prior year settlements, as discussed below. If approved, the increase would take effect October 1, 2007, and would increase residential electric bills by $1.29 per 1,000 kWhs, or 1.3 percent, for fuel cost recovery. The NCUC held a hearing on this matter on August 7, 2007. We cannot predict the outcome of this matter.

On June 2, 2006, PEC filed with the NCUC for an increase in the fuel rate charged to its North Carolina ratepayers. On September 25, 2006, the NCUC approved a settlement agreement filed jointly by PEC, the NCUC Public Staff and the Carolinas Industrial Group for Fair Utility Rates II. The settlement agreement provided for a $177 million, or 6.7 percent increase in rates effective October 1, 2006. The settlement agreement further provided for rate increases of approximately $50 million in 2007 and $30 million in 2008 and for PEC to collect its existing deferred fuel balance by September 30, 2009. PEC initially sought an increase of $292 million, or 11.0 percent, but agreed to a three-year phase-in of the increase in order to address concerns regarding the magnitude of the proposed increase. PEC will be allowed to calculate and

collect interest at 6.0% on the difference between its fuel factor proposed in its original request to the NCUC and the settlement agreement's factor. Effective October 1, 2006, residential electric bills increased by $4.87 per 1,000 kWhs for fuel cost recovery.

On November 21, 2006, the Carolina Utility Customers Association (CUCA) filed an appeal with the North Carolina Tenth District Court of Appeals of the NCUC's order on the grounds that the NCUC does not have the statutory authority to establish fuel rates for more than one year. PEC filed a motion to dismiss with the Court of Appeals on March 22, 2007. We cannot predict the outcome of this matter.

OTHER MATTERS

PEC filed petitions on September 14, 2006, and September 22, 2006, with the SCPSC and NCUC, respectively, seeking authorization to defer and amortize the respective jurisdictional portion of $18 million of previously recorded operation and maintenance (O&M) expense relating to certain environmental remediation sites (See Note 12A). On October 11, 2006, the SCPSC granted PEC's petition to defer its jurisdictional amount, totaling $3 million, and amortize it over a five-year period beginning January 1, 2007. On October 19, 2006, the NCUC granted PEC's petition to defer its jurisdictional amount, totaling $15 million, and amortize it over a five-year period. However, the NCUC order directed that amortization begin in 2006, with an amortization expense of $3 million. As a result, during the fourth quarter of 2006, PEC reversed $18 million of O&M expense, established a regulatory asset and recorded $3 million of amortization expense. During the three and six months ended June 30, 2007, PEC recorded $1 million of amortization expense. Additionally, PEC reduced the regulatory asset by $5 million during the six months ended June 30, 2007, based on newly available data regarding certain remediation sites and insurance proceeds (See Note 12A).

B. PEF Retail Rate Matters

PASS-THROUGH CLAUSE COST RECOVERY

On August 10, 2006, Florida's Office of Public Counsel (OPC) filed a petition with the FPSC asking that the FPSC require PEF to refund to ratepayers $143 million, plus interest, of alleged excessive past fuel recovery charges and SO_2 allowance costs during the period 1996 to 2005. The OPC subsequently revised its claim to $135 million, plus interest. The OPC claimed that although Crystal River Unit 4 and Crystal River Unit 5 (CR4 and CR5) were designed to burn a blend of coals, PEF failed to act to lower ratepayers' costs by purchasing the most economical blends of coal. During the period specified in the petition, PEF's costs recovered through fuel recovery clauses were annually reviewed for prudence and approval by the FPSC. On July 31, 2007, the FPSC heard this matter. The FPSC rejected most of the OPC's contentions, but a 4-1 majority found that PEF had not been prudent in purchasing a portion of its coal requirements during the period from 2003 to 2005. Accordingly, the FPSC ordered PEF to refund its ratepayers approximately $14 million, inclusive of interest, over a 12-month period beginning January 1, 2008. For the three months ended June 30, 2007, PEF recorded a pre-tax other operating expense of $12 million, interest expense of $2 million and an associated regulatory liability for the disallowed fuel costs and interest. PEF is evaluating its options, including a request for reconsideration and an appeal of the FPSC's order to the Florida Supreme Court. We cannot predict the outcome of this matter.

On September 22, 2006, PEF filed a petition with the FPSC for Determination of Need to uprate Crystal River Unit No. 3 Nuclear Plant (CR3), bid rule exemption and recovery of the revenue requirements of the uprate through PEF's fuel recovery clause. The multi-stage uprate will increase CR3's gross output by approximately 180 MW by 2012. Several design modifications will require a license amendment approved by the NRC. The petition filed with the FPSC included estimated project costs of approximately $382 million. These cost estimates may continue to change depending upon the results of more detailed engineering and development work and increased material, labor and equipment costs. On February 8, 2007, the FPSC issued an order approving the need certification petition and bid rule exemption. The request for recovery through PEF's fuel recovery clause was transferred to a separate docket filed on January 16, 2007. On February 2, 2007, intervenors filed a motion to abate the cost-recovery portion of PEF's request. On February 9, 2007, PEF requested that the FPSC deny the intervenors' motion as legally deficient and without merit. On March 27, 2007, the FPSC denied the motion to abate and directed the staff of the FPSC to conduct a hearing to determine whether the revenue requirements of the uprate should be recovered through the fuel recovery clause. On May 4, 2007, PEF filed amended testimony clarifying the scope of the project. The FPSC held a hearing on this matter on August 7, 2007. We anticipate that the FPSC will reach a decision on this matter later in 2007. If PEF does not receive approval to recover the

revenue requirements of the uprate through the fuel recovery clause, the prudently incurred capital costs associated with the uprate would be recoverable through base rates, similar to other utility plant additions. We cannot predict the outcome of this matter.

OTHER MATTERS

On November 3, 2004, the FPSC approved PEF's petition for Determination of Need for the construction of a fourth unit at PEF's Hines Energy Complex. Hines Unit 4 is needed to maintain electric system reliability and integrity and to continue to provide adequate electricity to its ratepayers at a reasonable cost. Hines Unit 4 will be a combined

cycle unit with a generating capacity of approximately 461 MW (summer rating). The estimated total in-service cost of Hines Unit 4 approved as part of the Determination of Need was $286 million. If the actual cost is less than the original estimate, ratepayers will receive the benefit of such cost under-runs. Any costs that exceed this estimate will not be recoverable absent, among other things, extraordinary circumstances as found by the FPSC in subsequent proceedings. The current estimate of in-service cost exceeds the initial project estimate due to what we believe to be extraordinary circumstances, including higher than anticipated land acquisition costs and unforeseen increases in commodity and labor costs. PEF filed a cost-recovery petition with the FPSC on April 30, 2007, to recover the full revenue requirements of Hines Unit 4, which has a current estimated in-service cost of $327 million, by increasing base rates $52 million, as provided for in PEF's 2005 base rate agreement. The rate base increase would become effective upon Hines Unit 4 being placed in service, which PEF anticipates will be on December 1, 2007. The FPSC has scheduled an October 9, 2007, hearing on this matter. We cannot predict the outcome of this matter.

5. EQUITY AND COMPREHENSIVE INCOME

A. Earnings Per Common Share

A reconciliation of our weighted-average number of common shares outstanding for basic and dilutive earnings per share purposes follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2007**	2006	**2007**	2006
Weighted-average common shares – basic	**256**	250	**255**	250
Net effect of dilutive stock-based compensation plans	**1**	1	**1**	–
Weighted-average shares – fully dilutive	**257**	251	**256**	250

B. Comprehensive Income

Progress Energy

	Three Months Ended June 30,	
(in millions)	**2007**	2006
Net loss	**$ (193)**	$ (47)
Other comprehensive income (loss)		
Reclassification adjustments included in net loss		
Change in cash flow hedges (net of tax expense of $2 and $1, respectively)	**3**	3
Change in unrecognized items for pension and other postretirement benefits (net of tax expense of $-)	**1**	–
Net unrealized gains on cash flow hedges (net of tax expense of $2 and $9, respectively)	**2**	5
Other (net of tax benefit of $2)	–	(5)
Other comprehensive income	**6**	3
Comprehensive loss	**$ (187)**	$ (44)

(in millions)	Six Months Ended June 30, 2007	2006
Net income (loss)	$ **82**	$ (2)
Other comprehensive income (loss)		
Reclassification adjustments included in net income (loss)		
Change in cash flow hedges (net of tax expense (benefit) of $2 and ($1), respectively)	**3**	(1)
Change in unrecognized items for pension and other postretirement benefits (net of tax expense of $-)	**2**	–
Net unrealized gains on cash flow hedges (net of tax expense of $2 and $16, respectively)	**2**	18
Other (net of tax benefit of $3)	**(2)**	–
Other comprehensive income	**5**	17
Comprehensive income	$ **87**	$ 15

PEC

(in millions)	Three Months Ended June 30, 2007	2006
Net income	$ **88**	$ 76
Other comprehensive income (loss)		
Net unrealized gains (losses) on cash flow hedges (net of tax expense (benefit) of $1 and ($1), respectively)	**2**	(2)
Other (net of tax benefit of $-)	**–**	(1)
Other comprehensive income (loss)	**2**	(3)
Comprehensive income	$ **90**	$ 73

(in millions)	Six Months Ended June 30, 2007	2006
Net income	$ **212**	$ 162
Other comprehensive income (loss)		
Net unrealized gains (losses) on cash flow hedges (net of tax benefit of $- and $1, respectively)	**1**	(2)
Other (net of tax benefit of $1)	**(4)**	–
Other comprehensive loss	**(3)**	(2)
Comprehensive income	$ **209**	$ 160

PEF

(in millions)	Three Months Ended June 30, 2007	2006
Net income	$ **68**	$ 87
Other comprehensive income		
Net unrealized gains on cash flow hedges (net of tax expense of $1)	**2**	–
Other comprehensive income	**2**	–
Comprehensive income	$ **70**	$ 87

(in millions)	Six Months Ended June 30, 2007	2006
Net income	$ **129**	$ 140
Other comprehensive income		
Net unrealized gains on cash flow hedges (net of tax expense of $1)	**2**	–
Other comprehensive income	**2**	–
Comprehensive income	$ **131**	$ 140

C. Common Stock

At December 31, 2006, we had 500 million shares of common stock authorized under our charter, of which approximately 256 million were outstanding. At December 31, 2006, we had approximately 54 million unissued shares of common stock reserved, primarily to satisfy the requirements of our stock plans. In 2002, the board of directors authorized meeting the requirements of the Progress Energy 401(k) Savings and Stock Ownership Plan (401(k)) and the Investor Plus Stock Purchase Plan with original issue shares. For the three and six months ended June 30, 2007, respectively, we issued approximately 1.2 million shares and 2.7 million shares of common stock resulting in approximately $57 million and $122 million in proceeds. Included in these amounts were approximately 0.3 million shares and 0.5 million shares for proceeds of approximately $12 million and $23 million, respectively, to meet the requirements of the 401(k) Plan and the Investor Plus Stock Purchase Plan. For the three months ended June 30, 2006, we issued approximately 0.7 million shares of common stock resulting in approximately $32 million in proceeds, primarily to meet the requirements of the 401(k) Plan and the Investor Plus Stock Purchase Plan. For the six months ended June 30, 2006, we issued approximately 1.4 million shares of common stock resulting in approximately $60 million in proceeds. Included in these amounts were approximately 1.0 million shares for proceeds of approximately $46 million to meet the requirements of the 401(k) Plan and the Investor Plus Stock Purchase Plan.

6. DEBT AND CREDIT FACILITIES AND FINANCING ACTIVITIES

Material changes, if any, to Progress Energy's, PEC's and PEF's debt and credit facilities and financing activities since December 31, 2006, are described below.

On July 2, 2007, PEF paid at maturity $85 million of its 6.81% Medium-Term Notes with available cash on hand and commercial paper borrowings.

7. UNCERTAIN TAX POSITIONS

Progress Energy

In July 2006, the FASB issued FIN 48, which clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. A two-step process is required for the application of FIN 48; recognition of the tax benefit based on a "more-likely-than-not" threshold and measurement of the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. We adopted the provisions of FIN 48 on January 1, 2007, which was accounted for as a $2 million reduction of the January 1, 2007, balance of retained earnings and a $4 million increase in regulatory assets. Including the cumulative effect impact, our liability for unrecognized tax benefits at January 1, 2007, was $126 million. Of the total amount of unrecognized tax benefits at January 1, 2007, $24 million would have affected the effective tax rate for income from continuing operations, if recognized. Primarily due to the closure of certain tax years in the second quarter of 2007, at June 30, 2007, our liability for unrecognized tax benefits decreased to $84 million and the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate for income from continuing operations decreased to $6 million.

We and our subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. Our open federal tax years are from 2004 forward and our open state tax years in our major jurisdictions are generally from 1992 forward. The IRS is currently examining our federal tax returns for years 2004 through 2005. We cannot predict when those examinations will be completed. We are not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease during the twelve-month period ending June 30, 2008.

We include interest expense related to unrecognized tax benefits in interest charges and we include penalties in other, net on the Consolidated Statements of Income. As of January 1, 2007, we had accrued $24 million for interest and penalties. As of June 30, 2007, we had accrued $18 million for interest and penalties.

PEC

PEC adopted the provisions of FIN 48 on January 1, 2007, which was accounted for as a $6 million reduction of the January 1, 2007, balance of retained earnings. Including the cumulative effect impact, PEC's liability for unrecognized tax benefits at January 1, 2007, was $43 million. Of the total amount of unrecognized tax benefits at January 1, 2007, $9 million would have affected the effective tax rate, if recognized. Primarily due to the closure of certain tax years in the second quarter of 2007, at June 30, 2007, PEC's liability for unrecognized tax benefits decreased to $29 million. At June 30, 2007, the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate decreased to $7 million.

We file consolidated federal and state income tax returns that include PEC. In addition, PEC files stand-alone tax returns in various state jurisdictions. PEC's open federal tax years are from 2004 forward and PEC's open state tax years in its major jurisdictions are generally from 1992 forward. The IRS is currently examining our federal tax returns for years 2004 through 2005. PEC cannot predict when those examinations will be completed. PEC is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease during the twelve-month period ending June 30, 2008.

PEC includes interest expense related to unrecognized tax benefits in interest charges and includes penalties in other, net on the Consolidated Statements of Income. As of January 1, 2007, PEC had accrued $4 million for interest and penalties. No material changes were recorded as of June 30, 2007.

PEF

PEF adopted the provisions of FIN 48 on January 1, 2007, which was accounted for as a $1 million reduction of the January 1, 2007, balance of retained earnings and a $4 million increase in regulatory assets. Including the cumulative effect impact, PEF's liability for unrecognized tax benefits at January 1, 2007, was $72 million. Of the total amount of unrecognized tax benefits at January 1, 2007, $4 million would have affected the effective tax rate, if recognized. Primarily due to the closure of certain tax years in the second quarter of 2007, at June 30, 2007, PEF's liability for unrecognized tax benefits decreased to $56 million and the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate decreased to $1 million.

We file consolidated federal and state income tax returns that include PEF. PEF's open federal tax years are from 2004 forward and PEF's open state tax years are generally from 1992 forward. The IRS is currently examining our federal tax returns for years 2004 through 2005. PEF cannot predict when those examinations will be completed. PEF is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease during the twelve-month period ending June 30, 2008.

Pursuant to a regulatory order, PEF records interest expense related to unrecognized tax benefits as a regulatory asset, which is amortized over a three-year period, with the amortization included in interest charges on the Statements of Income. Penalties are included in other, net on the Statements of Income. As of January 1, 2007, PEF had accrued $7 million for interest and penalties. As of June 30, 2007, PEF had accrued $14 million for interest and penalties.

8. BENEFIT PLANS

We have noncontributory defined benefit retirement plans that provide pension benefits for substantially all full-time employees. We also have supplementary defined benefit pension plans that provide benefits to higher-level employees. In addition to pension benefits, we provide contributory other postretirement benefits (OPEB), including certain health care and life insurance benefits, for retired employees who meet specified criteria. The components of the net periodic benefit cost for the respective Progress Registrants for the three and six months ended June 30 were:

Progress Energy

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended June 30,			
(in millions)	**2007**	2006	**2007**	2006
Service cost	**$ 11**	$ 12	**$ 2**	$ 2
Interest cost	**30**	29	**9**	9
Expected return on plan assets	**(39)**	(36)	**(1)**	(1)
Amortization of actuarial loss [(a)]	**4**	6	**1**	2
Other amortization, net [(a)]	**–**	–	**1**	1
Net periodic cost	**$ 6**	$ 11	**$ 12**	$ 13

	Pension Benefits		Other Postretirement Benefits	
	Six Months Ended June 30,			
(in millions)	**2007**	2006	**2007**	2006
Service cost	**$ 22**	$ 23	**$ 4**	$ 4
Interest cost	**61**	58	**18**	17
Expected return on plan assets	**(78)**	(72)	**(3)**	(3)
Amortization of actuarial loss [(a)]	**7**	12	**3**	4
Other amortization, net [(a)]	**1**	–	**2**	3
Net periodic cost	**$ 13**	$ 21	**$ 24**	$ 25

(a) Adjusted to reflect PEF's rate treatment. See Note 16B in the 2006 Form 10-K.

PEC

(in millions)	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended June 30,			
	2007	2006	**2007**	2006
Service cost	**$ 5**	$ 6	**$ 1**	$ 1
Interest cost	**14**	13	**5**	5
Expected return on plan assets	**(15)**	(15)	**(1)**	(1)
Amortization of actuarial loss	**3**	3	**1**	1
Net periodic cost	**$ 7**	$ 7	**$ 6**	$ 6

(in millions)	Pension Benefits		Other Postretirement Benefits	
	Six Months Ended June 30,			
	2007	2006	**2007**	2006
Service cost	**$ 11**	$ 11	**$ 2**	$ 2
Interest cost	**27**	25	**9**	9
Expected return on plan assets	**(30)**	(29)	**(2)**	(2)
Amortization of actuarial loss	**5**	7	**2**	2
Other amortization, net	**1**	1	**1**	1
Net periodic cost	**$ 14**	$ 15	**$ 12**	$ 12

PEF

(in millions)	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended June 30,			
	2007	2006	**2007**	2006
Service cost	**$ 4**	$ 4	**$ 1**	$ 1
Interest cost	**13**	12	**3**	3
Expected return on plan assets	**(21)**	(19)	**–**	–
Amortization of actuarial loss	**–**	2	**–**	–
Other amortization, net	**–**	–	**1**	1
Net periodic (benefit) cost	**$ (4)**	$ (1)	**$ 5**	$ 5

(in millions)	Pension Benefits		Other Postretirement Benefits	
	Six Months Ended June 30,			
	2007	2006	**2007**	2006
Service cost	**$ 8**	$ 8	**$ 1**	$ 2
Interest cost	**25**	25	**7**	7
Expected return on plan assets	**(42)**	(37)	**(1)**	(1)
Amortization of actuarial loss	**–**	3	**1**	1
Other amortization, net	**–**	(1)	**2**	2
Net periodic (benefit) cost	**$ (9)**	$ (2)	**$ 10**	$ 11

9. RISK MANAGEMENT ACTIVITIES AND DERIVATIVE TRANSACTIONS

We are exposed to various risks related to changes in market conditions. We have a risk management committee that includes senior executives from various business groups. The risk management committee is responsible for administering risk management policies and monitoring compliance with those policies by all subsidiaries. Under our risk policy, we may use a variety of instruments, including swaps, options and forward contracts, to manage exposure to fluctuations in commodity prices and interest rates. Such instruments contain credit risk if the counterparty fails to perform under the contract. We minimize such risk by performing credit reviews using, among other things, publicly available credit ratings of such counterparties. Potential nonperformance by counterparties is not expected to have a material effect on our financial position or results of operations.

As discussed in Note 3A, our subsidiary, PVI, entered into a series of transactions to sell or assign substantially all of its CCO physical and commercial assets and liabilities. On June 1, 2007, PVI closed the transaction involving the assignment of a contract portfolio consisting of the Georgia Contracts, forward gas and power contracts, gas transportation, structured power and other contracts to a third party. This represents substantially all of our nonregulated energy marketing and trading operations. The sale of the generation assets closed on June 11, 2007. Additionally, we sold Gas on October 2, 2006 (See Note 3B). Due to these divestitures, management determined that it was no longer probable that the forecasted transactions underlying certain derivative contracts would be fulfilled and cash flow hedge accounting for the contracts was discontinued beginning in the second quarter of 2006 for Gas and in the fourth quarter of 2006 for CCO.

At June 30, 2007, due to the closing of the transactions discussed above, our discontinued operations did not have material outstanding positions in derivative instruments. At December 31, 2006, derivative assets of $107 million were included in assets of discontinued operations and derivative liabilities of $31 million were included in liabilities of discontinued operations on the Consolidated Balance Sheet. For the three and six months ended June 30, 2007, after-tax gains from derivative instruments of $29 million and $88 million, respectively, were included in discontinued operations on the Consolidated Statements of Income. For the three and six months ended June 30, 2006, there were no material net gains and losses from derivative instruments included in discontinued operations. For the three and six months ended June 30, 2007, there were no reclassifications to earnings due to the discontinuance of the related cash flow hedges. For the three and six months ended June 30, 2006, $7 million in after-tax losses were reclassified to earnings due to the discontinuance of the related cash flow hedges in anticipation of the sale of Gas.

A. Commodity Derivatives

GENERAL

Most of our commodity contracts are not derivatives pursuant to Statement of Financial Accounting Standards No. 133, "Accounting for Derivative and Hedging Activities" (SFAS No. 133) or qualify as normal purchases or sales pursuant to SFAS No. 133. Therefore, such contracts are not recorded at fair value.

In 2003, PEC recorded a $38 million pre-tax ($23 million after-tax) fair value loss transition adjustment pursuant to the provisions of FASB Derivatives Implementation Group Issue C20, "Interpretation of the Meaning of Not Clearly and Closely Related in Paragraph 10(b) regarding Contracts with a Price Adjustment Feature" (DIG Issue C20). The related liability is being amortized to earnings over the term of the related contract (See Note 11). At June 30, 2007, and

December 31, 2006, the remaining liability was $12 million and $14 million, respectively.

ECONOMIC DERIVATIVES

Derivative products, primarily electricity and natural gas contracts, may be entered into from time to time for economic hedging purposes. While management believes the economic hedges mitigate exposures to fluctuations in commodity prices, these instruments are not designated as hedges for accounting purposes and are monitored consistent with trading positions. We manage open positions with strict policies that limit our exposure to market risk and require daily reporting to management of potential financial exposures.

On January 8, 2007, we entered into derivative contracts to hedge economically a portion of our 2007 synthetic fuels cash flow exposure to the risk of rising oil prices over an average annual oil price range of $63 to $77 per barrel on a New York Mercantile Exchange (NYMEX) basis. The notional quantity of these oil price hedge instruments is 25 million barrels and will provide protection for the equivalent of approximately eight million tons of 2007 synthetic fuels production. The cost of the hedges was approximately $65 million. The contracts are marked-to-market with changes in fair value recorded through earnings from synthetic fuels production. Approximately 34 percent of the notional quantity of these contracts was entered into by Ceredo. As discussed in Notes 1C and 3I, we disposed of our 100 percent ownership interest in Ceredo on March 30, 2007. Progress Energy is the primary beneficiary of, and continues to consolidate Ceredo in accordance with FIN 46R, but we have recorded a 100 percent minority interest. Consequently, there is no net earnings impact for the contracts entered into by Ceredo subsequent to the disposal. At June 30, 2007, the fair value of these contracts was recorded as a $96 million short-term derivative asset position, including $33 million at Ceredo. The fair value of these contracts was included in derivative assets on the Consolidated Balance Sheet. During the three and six months ended June 30, 2007, we recorded net pre-tax losses of $14 million and net pre-tax gains of $31 million, respectively, in diversified business revenues related to these contracts, including net pre-tax losses of $5 million at Ceredo subsequent to disposal of our 100 percent ownership interest.

The Utilities have derivative instruments related to their exposure to price fluctuations on fuel oil and natural gas purchases. These instruments receive regulatory accounting treatment. Unrealized gains and losses are recorded in regulatory liabilities and regulatory assets on the Balance Sheets, respectively, until the contracts are settled. Once settled, any realized gains or losses are passed through the fuel clause.

At June 30, 2007, the fair value of PEC's commodity derivative instruments was recorded as a $5 million long-term derivative asset position included in other assets and deferred debits and a $5 million short-term derivative liability position included in other current liabilities on the Consolidated Balance Sheet. At December 31, 2006, PEC did not have material outstanding positions in such contracts.

At June 30, 2007, the fair value of PEF's commodity derivative instruments was recorded as a $7 million short-term derivative asset position included in prepayments and other current assets, a $22 million long-term derivative asset position included in other assets and deferred debits, a $44 million short-term derivative liability position included in derivative liabilities, and a $4 million long-term derivative liability position included in other liabilities and deferred credits on the PEF Balance Sheet. At December 31, 2006, the fair value of such instruments was recorded as a $2 million long-term derivative asset position included in other assets and deferred debits, an $87 million short-term derivative liability position included in derivative liabilities and a $36 million long-term derivative liability position included in other liabilities and deferred credits on the PEF Balance Sheet.

CASH FLOW HEDGES

Our subsidiaries designate a portion of commodity derivative instruments as cash flow hedges under SFAS No. 133. The objective for holding these instruments is to hedge exposure to market risk associated with fluctuations in the price of natural gas and power for our forecasted purchases and sales. Realized gains and losses are recorded net in operating revenues or operating expenses, as appropriate. At June 30, 2007, we and the Utilities did not have material outstanding positions in such contracts. The ineffective portion of commodity cash flow hedges for the three and six months ended June 30, 2007 and 2006, was not material to our or the Utilities' results of operations.

The fair values of our commodity cash flow hedges at December 31, 2006, were as follows:

(in millions)	December 31, 2006 Progress Energy	PEC	PEF
Fair value of assets	$ 2	$ 2	$ –
Fair value of liabilities	–	–	–
Fair value, net	$ 2	$ 2	$ –

http://phx.corporate-ir.net/SECCapsule/SECDocument.asp?fid=5070438&vfid=5096908... 10/12/2007

At June 30, 2007, and December 31, 2006, the amount recorded in our or PEC's accumulated other comprehensive income (AOCI) related to commodity cash flow hedges was not material and PEF had no amount recorded in AOCI related to commodity cash flow hedges.

Our discontinued operations did not have material outstanding positions in commodity cash flow hedges at June 30, 2007 or December 31, 2006.

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

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

The fair values of interest rate hedges at June 30, 2007, and December 31, 2006, were as follows:

	June 30, 2007			December 31, 2006		
(in millions)	**Progress Energy**	**PEC**	**PEF**	Progress Energy	PEC	PEF
Interest rate cash flow hedges						
Fair value of assets	$ 3	$ –	$ 3	$ –	$ –	$ –
Fair value of liabilities	(1)	–	(1)	(2)	(1)	(1)
Interest rate fair value hedges						
Fair value of assets	–	–	–	–	–	–
Fair value of liabilities	(1)	–	–	(1)	–	–

CASH FLOW HEDGES

Gains and losses from cash flow hedges are recorded in AOCI and amounts reclassified to earnings are included in net interest charges as the hedged transactions occur. Amounts in AOCI related to terminated hedges are reclassified to earnings as the interest expense is recorded. The ineffective portion of interest rate cash flow hedges for the three and six months ended June 30, 2007 and 2006, was not material to our or the Utilities' results of operations.

The following table presents selected information related to our interest rate cash flow hedges at June 30, 2007:

(term in years/millions of dollars)	Progress Energy	PEC	PEF
Maximum term	Less than 1	Less than 1	Less than 1
Accumulated other comprehensive (loss) gain, net of tax[(a)]	$ (9)	$ (4)	$ 1
Portion expected to be reclassified to earnings during the next 12 months[(b)]	(2)	(1)	–

[(a)] Includes amounts related to terminated hedges.

(b) Actual amounts that will be reclassified to earnings may vary from the expected amounts presented above as a result of changes in interest rates.

PEF entered into $150 million notional in forward starting swaps in June 2007 and a $50 million forward starting swap in February 2007, to mitigate exposure to interest rate risk in anticipation of future debt issuances. On July 20, 2007, PEF entered into an additional $25 million notional forward starting swap and on July 30, 2007, PEC entered into a $50 million notional forward starting swap to mitigate exposure to interest rate risk in anticipation of future debt issuances.

At December 31, 2006, including amounts related to terminated hedges, we had $14 million of after-tax deferred losses, including $5 million of after-tax deferred losses at PEC and $1 million of after-tax deferred losses at PEF, recorded in AOCI related to interest rate cash flow hedges.

At June 30, 2007, we had $300 million notional of interest rate cash flow hedges, including $50 million notional at PEC and $250 million notional at PEF. At December 31, 2006, we had $100 million notional of interest rate cash flow hedges, including $50 million notional at PEC and $50 million notional at PEF.

FAIR VALUE HEDGES

For interest rate fair value hedges, the change in the fair value of the hedging derivative is recorded in net interest charges and is offset by the change in the fair value of the hedged item. At June 30, 2007, and December 31, 2006, we had $50 million notional of interest rate fair value hedges. At June 30, 2007, and December 31, 2006, the Utilities had no open interest rate fair value hedges.

10. FINANCIAL INFORMATION BY BUSINESS SEGMENT

Our reportable segments are: PEC, PEF, and Coal and Synthetic Fuels.

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

Our Coal and Synthetic Fuels segment is primarily engaged in the production and sale of coal-based solid synthetic fuels (as defined under the Code), the operation of synthetic fuels facilities for third parties, and coal terminal services.

In addition to the reportable operating segments, the Corporate and Other segment includes the operations of the Parent and PESC as well as other nonregulated business areas. These nonregulated business areas do not separately meet the disclosure requirements of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The profit or loss of the identified segments plus the profit or loss of Corporate and Other represents our total income from continuing operations.

Income and assets of discontinued operations are not included in the table presented below. For comparative purposes, the prior year results have been restated to conform to the current segment presentation. The following information is for the three and six months ended June 30:

	Revenues [a]			Income (Loss) from Continuing Operations	
(in millions)	Unaffiliated	Intersegment	Total		Assets
Three Months Ended June 30, 2007					
PEC	$ 996	$ –	$ 996	$ 88	$ 11,867
PEF	1,129	–	1,129	68	9,045
Coal and Synthetic Fuels	278	–	278	15	763

Corporate and Other		**3**		**102**		**105**		**(40)**		**15,508**
Eliminations		**–**		**(102)**		**(102)**		**–**		**(11,814)**
Totals	**$**	**2,406**	**$**	**–**	**$**	**2,406**	**$**	**131**	**$**	**25,369**
Three Months Ended June 30, 2006										
PEC	$	936	$	–	$	936	$	76		
PEF		1,147		–		1,147		87		
Coal and Synthetic Fuels		214		85		299		(99)		
Corporate and Other		1		103		104		(45)		
Eliminations		–		(188)		(188)		–		
Totals	$	2,298	$	–	$	2,298	$	19		

(in millions)	Revenues [a] Unaffiliated	Intersegment	Total	Income (Loss) from Continuing Operations	Assets
Six Months Ended June 30, 2007					
PEC	**$ 2,054**	**$ –**	**$ 2,054**	**$ 211**	**$ 11,867**
PEF	**2,140**	**–**	**2,140**	**128**	**9,045**
Coal and Synthetic Fuels	**541**	**2**	**543**	**72**	**763**
Corporate and Other	**5**	**187**	**192**	**(60)**	**15,508**
Eliminations	**–**	**(189)**	**(189)**	**–**	**(11,814)**
Totals	**$ 4,740**	**$ –**	**$ 4,740**	**$ 351**	**$ 25,369**
Six Months Ended June 30, 2006					
PEC	$ 1,914	$ –	$ 1,914	$ 161	
PEF	2,154	–	2,154	139	
Coal and Synthetic Fuels	452	163	615	(90)	
Corporate and Other	1	192	193	(106)	
Eliminations	–	(355)	(355)	–	
Totals	$ 4,521	$ –	$ 4,521	$ 104	

(a) Coal and Synthetic Fuels includes revenues of synthetic fuels facilities that are operated on behalf of third parties.

11. OTHER INCOME AND OTHER EXPENSE

Other income and expense includes interest income and other income and expense items as discussed below. Nonregulated energy and delivery services include power protection services and mass market programs such as surge protection, appliance services and area light sales, and delivery, transmission and substation work for other utilities. AFUDC equity represents the estimated equity costs of capital funds necessary to finance the construction of new regulated assets. Contingent value obligations (CVOs) unrealized gain or loss is due to changes in the fair market value of the liability. See Note 15 in the 2006 Form 10-K for more information on CVOs. The components of other, net as shown on the accompanying Statements of Income were as follows:

Progress Energy

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Other income				
Nonregulated energy and delivery services income	**$ 13**	$ 15	**$ 22**	$ 23
DIG Issue C20 amortization (see Note 9)	**1**	1	**2**	2
CVOs unrealized gain	**–**	3	**1**	3
Gain on sale of Level 3 stock [(a)]	**–**	8	**–**	32
Investment gains	**2**	–	**3**	3
Income from equity investments	**7**	–	**7**	–
AFUDC equity	**10**	4	**20**	7
Other	**5**	4	**8**	8
Total other income	**38**	35	**63**	78
Other expense				
Nonregulated energy and delivery services expenses	**5**	7	**12**	13
Donations	**5**	5	**9**	12
Loss on sale of property	**1**	–	**1**	–
Investment losses	**–**	3	**–**	3
Loss from equity investments	**–**	1	**–**	2
CVOs unrealized loss	**4**	–	**4**	25
Other	**6**	9	**11**	15
Total other expense	**21**	25	**37**	70
Other, net	**$ 17**	$ 10	**$ 26**	$ 8

(a) Other income includes pre-tax gains of $8 million and $32 million for the three and six months ended June 30, 2006, respectively, from the sale of approximately 20 million shares of Level 3 stock received as part of the sale of our interest in PT LLC (See Note 3D). These gains are prior to the consideration of minority interest.

PEC

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Other income				
Nonregulated energy and delivery services income	**$ 7**	$ 8	**$ 9**	$ 10
DIG Issue C20 amortization (see Note 9)	**1**	1	**2**	2
Income from equity investments	**–**	–	**2**	–
Investment gains	**–**	–	**1**	1
AFUDC equity	**2**	1	**4**	2
Other	**2**	3	**5**	6
Total other income	**12**	13	**23**	21
Other expense				

Nonregulated energy and delivery services expenses	**1**	2	**3**	3
Donations	**3**	3	**5**	6
Loss from equity investments	**–**	–	**1**	–
Investment losses	**–**	3	**–**	3
Other	**1**	6	**4**	11
Total other expense	**5**	14	**13**	23
Other, net	**$ 7**	$ (1)	**$ 10**	$ (2)

PEF

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Other income				
Nonregulated energy and delivery services income	**$ 6**	$ 7	**$ 13**	$ 13
Investment gains	**2**	–	**2**	1
AFUDC equity	**8**	3	**16**	5
Total other income	**16**	10	**31**	19
Other expense				
Nonregulated energy and delivery services expenses	**4**	5	**9**	10
Donations	**2**	2	**4**	6
Loss from equity investments	**–**	–	**1**	–
Other	**2**	–	**2**	1
Total other expense	**8**	7	**16**	17
Other, net	**$ 8**	$ 3	**$ 15**	$ 2

12. ENVIRONMENTAL MATTERS

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

A. Hazardous and Solid Waste

The provisions of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), authorize the United States Environmental Protection Agency (EPA) to require the cleanup of hazardous waste sites. This statute imposes retroactive joint and several liabilities. Some states, including North Carolina, South Carolina and Florida, have similar types of statutes. We are periodically notified by regulators, including the EPA and various state agencies, of our involvement or potential involvement in sites that may require investigation and/or remediation. There are presently several sites with respect to which we have been notified of our potential liability by the EPA, the state of North Carolina, the state of Florida, or potentially responsible party (PRP) groups as described below in greater detail. Various materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under federal and state laws. PEC and PEF are each PRPs at several manufactured gas plant (MGP) sites. We are also currently in the process of assessing potential costs and exposures at other sites. These costs are eligible for regulatory recovery through either base rates or cost-recovery clauses. Both PEC and PEF evaluate potential claims against other potential PRPs and insurance carriers and plan to submit claims for cost recovery where appropriate. The outcome of these potential claims cannot be predicted. No material claims are currently pending. A discussion of sites by legal entity follows.

We record accruals for probable and estimable costs related to environmental sites on an undiscounted basis. We measure our liability for these sites based on available evidence including our experience in investigating and remediating environmentally impaired sites. The process often involves assessing and developing cost-sharing arrangements with other PRPs. For all sites, as assessments are developed and analyzed, we will accrue costs for the sites to the extent our

liability is probable and the costs can be reasonably estimated. Because the extent of environmental impact, allocation among PRPs for all sites, remediation alternatives (which could involve either minimal or significant efforts), and concurrence of the regulatory authorities have not yet reached the stage where a reasonable estimate of the remediation costs can be made, we cannot determine the total costs that may be incurred in connection with the remediation of all sites at this time. It is probable that current estimates will change and additional losses, which could be material, may be incurred in the future.

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

(in millions)	June 30, 2007	December 31, 2006
PEC		
MGP and other sites[a]	$ 16	$ 22
PEF		
Remediation of distribution and substation transformers	37	43
MGP and other sites	18	18
Total PEF environmental remediation accruals[b]	55	61
Progress Energy nonregulated operations	1	3
Total Progress Energy environmental remediation accruals	$ 72	$ 86

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

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

Progress Energy

In addition to the Utilities' sites, discussed under "PEC" and "PEF" below, our environmental sites include the following related to our nonregulated operations.

In 2001, we, through our Progress Fuels subsidiary, established an accrual to address indemnities and retained an environmental liability associated with the sale of our Inland Marine Transportation business. For the three and six months ended June 30, 2007, the accrual was reduced by $2 million due to a reduction in the anticipated scope of work based on responses from regulatory agencies. Expenditures related to this liability were not material for the three and six months ended June 30, 2007 and 2006.

On March 24, 2005, we completed the sale of our Progress Rail subsidiary. In connection with the sale, we incurred indemnity obligations related to certain pre-closing liabilities, including certain environmental matters (See discussion under Guarantees in Note 13A).

PEC

For the three months ended June 30, 2007, including the Carolina Transformer site, the Ward Transformer site and MGP sites discussed below, PEC accrued approximately $1 million, primarily related to the Ward Transformer site, and spent approximately $1 million. For the six months ended June 30, 2007, including the Carolina Transformer site, the Ward Transformer site and MGP sites discussed below, PEC reduced its accrual by approximately $4 million, primarily related to the Ward Transformer site, and spent approximately $2 million. For the three months ended June 30, 2006, PEC made no additional accruals and spent approximately $1 million. For the six months ended June 30, 2006, PEC accrued approximately $21 million, of which approximately $9 million related to the Ward Transformer site and approximately $12 million related to MGP sites, and spent approximately $4 million. For the three and six months ended June 30, 2007, PEC received $2 million in insurance proceeds. In October 2006, PEC received orders from the NCUC and SCPSC to defer and amortize certain environmental remediation expenses, net of insurance proceeds (See Note 4A).

PEC has recorded a minimum estimated total remediation cost for all of its remaining MGP sites based upon its historical experience with remediation of several of its MGP sites. The maximum amount of the range for all the sites cannot be determined at this time as one of the remaining sites is significantly larger than the sites for which we have historical experience. Actual experience may differ from current estimates, and it is probable that estimates will continue to change in the future.

During the fourth quarter of 2004, the EPA advised PEC that it had been identified as a PRP at the Ward Transformer site located in Raleigh, N.C. The EPA offered PEC and a number of other PRPs the opportunity to negotiate cleanup of the site and reimbursement to the EPA for EPA's past expenditures in addressing conditions at the site. Subsequently, PEC and other PRPs signed a settlement agreement, which requires the participating PRPs to remediate the site. At December 31, 2006, PEC's accrual for its portion of the estimated remediation costs was approximately $9 million. In March 2007, the PRP agreement was amended to include an additional participating PRP, which reduced PEC's allocable share. Accordingly, PEC refined and reduced its estimated liability for this site, as discussed above. At June 30, 2007, PEC's recorded liability for the site was approximately $5 million.

Actual experience may differ from current estimates, and it is probable that estimates will continue to change in the future. In August 2007, the EPA advised PEC that it has scheduled a public meeting for August 14, 2007, to discuss a proposed remedial action plan for stream segments downstream from the Ward Transformer site. The outcome of these matters cannot be predicted.

In September 2005, the EPA advised PEC that it had been identified as a PRP at the Carolina Transformer site located in Fayetteville, N.C. The EPA offered PEC and a number of other PRPs the opportunity to share in the reimbursement to the EPA of past expenditures in addressing conditions at the site, which are currently approximately $33 million. A settlement offer was made by the PRP group to EPA on July 6, 2007. For the three months ended June 30, 2007, PEC recorded an immaterial accrual based on its estimated share of the settlement offer. An agreement with the EPA has not been reached at this time. The outcome of this matter cannot be predicted.

PEF

PEF has received approval from the FPSC for recovery of the majority of costs associated with the remediation of distribution and substation transformers through the Environmental Cost Recovery Clause (ECRC). Under agreements with the Florida Department of Environmental Protection, PEF is in the process of examining distribution transformer sites and substation sites for mineral oil-impacted soil remediation caused by equipment integrity issues. PEF has reviewed a number of distribution transformer sites and all substation sites. Based on changes to the estimated time frame for inspections of distribution transformer sites, PEF currently expects to have completed this review by the end of 2008. Should further sites be identified, PEF believes that any estimated costs would also be recovered through the ECRC. For the three and six months ended June 30, 2007, PEF accrued approximately $3 million and $5 million, respectively, due to an increase in estimated remediation costs and spent approximately $6 million and $11 million, respectively, related to the remediation of transformers. For the three and six months ended June 30, 2006, PEF accrued approximately $1 million and $39 million, respectively, due to additional sites expected to require remediation and spent approximately $5 million and $6 million, respectively, related to the remediation of transformers. At June 30, 2007, PEF has recorded a regulatory asset for the probable recovery of these costs through the ECRC.

The amounts for MGP and other sites, in the table above, relate to two former MGP sites and other sites associated with PEF that have required or are anticipated to require investigation and/or remediation. The amounts include approximately $12 million in insurance claim settlement proceeds received in 2004, which are restricted for use in addressing costs associated with environmental liabilities. For the three and six months ended June 30, 2007 and 2006, PEF made no additional accruals or material expenditures.

B. Air and Water Quality

We are subject to various current federal, state and local environmental compliance laws and regulations governing air and water quality, resulting in capital expenditures and increased O&M expenses. These compliance laws and regulations include the Clean Air Interstate Rule (CAIR), the Clean Air Mercury Rule (CAMR), the Clean Air Visibility Rule (CAVR), the NOx SIP Call Rule under Section 110 of the Clean Air Act (NOx SIP Call) and the Clean Smokestacks Act. At June 30, 2007, cumulative environmental compliance capital expenditures to date with regard to these environmental laws and regulations were $1.195 billion, including $1.098 billion at PEC and $97 million at PEF.

As discussed in Note 4A, in June 2002, the Clean Smokestacks Act was enacted in North Carolina requiring the state's electric utilities to reduce the emissions of NOx and SO_2 from their North Carolina coal-fired power plants in phases by 2013. Two of PEC's largest coal-fired generating units (the Roxboro No. 4 and Mayo Units) impacted by the Clean Smokestacks Act are jointly owned. Pursuant to joint ownership agreements, the joint owners are required to pay a

portion of the costs of owning and operating these plants. PEC has determined that the most cost-effective Clean Smokestacks Act compliance strategy is to maximize the SO_2 removal from its larger coal-fired units, including Roxboro No. 4 and Mayo, so as to avoid the installation of expensive emission controls on its smaller coal-fired units. In order to address the joint owner's concerns that such a compliance strategy would result in a disproportionate share of the cost of compliance for the jointly owned units, PEC entered into an agreement with the joint owner to limit its aggregate costs associated with capital expenditures to comply with the Clean Smokestacks Act to approximately $38 million. PEC recorded a related liability for the joint owner's share of estimated costs in

excess of the contract amount. At June 30, 2007, and December 31, 2006, the amount of the liability was $31 million and $29 million, respectively, based upon the respective current estimates for Clean Smokestacks Act compliance. Because PEC has taken a system-wide compliance approach, its North Carolina retail ratepayers have significantly benefited from the strategy of focusing emission reduction efforts on the jointly owned units, and, therefore, PEC believes that any costs in excess of the joint owner's share should be recovered from North Carolina retail ratepayers, consistent with other capital expenditures associated with PEC's compliance with the Clean Smokestacks Act. In 2006, PEC notified the NCUC of its intent to record these estimated excess costs as part of the $569 million amortization required to be recorded by December 31, 2007, and has, accordingly, recorded the indemnification expense to Clean Smokestacks Act amortization.

13. COMMITMENTS AND CONTINGENCIES

Contingencies and significant changes to the commitments discussed in Note 22 in the 2006 Form 10-K are described below.

A. Purchase Obligations

Progress Energy

As part of our ordinary course of business, we enter into various long- and short-term contracts for fuel requirements at our generating plants. Through June 30, 2007, contracts procured through our subsidiaries have increased our aggregate purchase obligations for fuel and purchased power by approximately $5 billion compared to the amount stated in Note 22A in the 2006 Form 10-K. This increase is discussed under "PEC" and "PEF" below.

PEC

Through June 30, 2007, PEC's fuel and purchase power commitments increased by $613 million compared to the amount stated in Note 22A in the 2006 Form 10-K. This increase is primarily related to nuclear fuel commitments, of which approximately $425 million will be incurred through 2011.

PEF

Through June 30, 2007, PEF's fuel and purchase power commitments increased by $4.556 billion compared to the amount stated in Note 22A in the 2006 Form 10-K. The increase is primarily due to precedent and related agreements PEF entered into on December 2, 2004, for the supply of natural gas and associated firm pipeline transportation to augment PEF's gas supply needs for the period from May 1, 2007, to April 30, 2027, as discussed in Note 22A in the 2006 Form 10-K. At June 30, 2007, the total cost associated with these agreements is approximately $4.4 billion, an increase of $500 million from December 31, 2006, as payments under the gas supply agreement are based on a market index, which has increased since year-end. Based upon current market prices, we anticipate incurring these costs ratably over the contract period. The transactions were subject to several conditions precedent, some of which were satisfied at December 31, 2006. Due to the conditions in the agreements, the estimated costs associated with these agreements were not included in our or PEF's contractual cash obligations table at December 31, 2006. During 2007, the remaining conditions precedent were satisfied and the long-term contracts were contractual obligations of PEF at June 30, 2007.

B. Guarantees

As a part of normal business, we enter into various agreements providing future financial or performance assurances to third parties, which are outside the scope of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Such agreements include guarantees, standby letters of credit and surety bonds. At June 30, 2007, we do not believe conditions are likely for significant performance under these guarantees. To the extent liabilities are incurred as a result of the activities covered by the guarantees, such liabilities are included in the accompanying Balance Sheets.

At June 30, 2007, we have issued guarantees and indemnifications of and for certain asset performance, legal, tax and environmental matters to third parties, including indemnifications made in connection with sales of businesses, and for timely payment of obligations in support of our nonwholly owned synthetic fuels operations. Related to the sales of businesses, the latest notice period extends until 2012 for the majority of legal, tax and environmental

matters provided for in the indemnification provisions. Indemnifications for the performance of assets extend to 2016. For certain matters for which we receive timely notice, our indemnity obligations may extend beyond the notice period. Certain indemnifications have no limitations as to time or maximum potential future payments. In 2005, PEC entered into an agreement with the joint owner of certain facilities at the Mayo and Roxboro plants to limit their aggregate costs associated with capital expenditures to comply with the Clean Smokestacks Act and recognized a liability related to this indemnification (See Note 12B). PEC's maximum exposure cannot be determined. At June 30, 2007, the estimated maximum exposure for guarantees and indemnifications for which a maximum exposure is determinable was $427 million, including $32 million at PEF. At June 30, 2007, and December 31, 2006, we have recorded liabilities related to guarantees and indemnifications to third parties of approximately $82 million and $60 million, respectively. These amounts include $31 million and $29 million, respectively, for PEC and $8 million for PEF at June 30, 2007, and December 31, 2006. As current estimates change, it is possible that additional losses related to guarantees and indemnifications to third parties, which could be material, may be recorded in the future.

In addition, the Parent has issued $300 million of guarantees for certain payments of two wholly owned indirect subsidiaries. See Note 14 for additional information.

C. Other Commitments and Contingencies

SPENT NUCLEAR FUEL MATTERS

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

The DOE failed to begin taking spent nuclear fuel by January 31, 1998. In January 2004, the Utilities filed a complaint in the United States Court of Federal Claims against the DOE, claiming that the DOE breached the Standard Contract for Disposal of Spent Nuclear Fuel by failing to accept spent nuclear fuel from our various facilities on or before January 31, 1998. Our damages due to the DOE's breach will be significant, but have yet to be determined. Approximately 60 cases involving the government's actions in connection with spent nuclear fuel are currently pending in the Court of Federal Claims.

The DOE and the Utilities agreed to, and the trial court entered, a stay of proceedings, in order to allow for possible efficiencies due to the resolution of legal and factual issues in previously filed cases in which similar claims are being pursued by other plaintiffs. These issues may include, among others, so-called "rate issues," or the minimum mandatory schedule for the acceptance of spent nuclear fuel and high-level radioactive waste by which the government was contractually obligated to accept contract holders' spent nuclear fuel and/or high-level waste, and issues regarding recovery of damages under a partial breach of contract theory that will be alleged to occur in the future. These issues have been or are expected to be presented in the trials or appeals that occurred in 2006 or are currently scheduled to occur during 2007. Resolution of these issues in other cases could facilitate agreements by the parties in the Utilities' lawsuit, or at a minimum, inform the court of decisions reached by other courts if they remain contested and require resolution in this case. In July 2005, the parties jointly requested a continuance of the stay through December 15, 2005, which the trial court granted. Subsequently, the trial court continued the stay until March 17, 2006. The trial court lifted the stay on March 22, 2006, and discovery has commenced. The trial court issued a scheduling order on March 23, 2006, and the case is scheduled to go to trial in November 2007.

In July 2002, Congress passed an override resolution to Nevada's veto of the DOE's proposal to locate a permanent underground nuclear waste storage facility at Yucca Mountain, Nev. In January 2003, the state of Nevada; Clark County, Nev.; and the city of Las Vegas petitioned the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court) for review of the Congressional override resolution. These same parties also challenged the EPA's radiation standards for Yucca Mountain. On July 9, 2004, the D.C. Circuit Court rejected the challenge to the constitutionality of the resolution approving Yucca Mountain, but ruled that the EPA was wrong to set a 10,000-year compliance period in the radiation protection standard. In August 2005, the EPA issued new proposed standards. The proposed standards include a 1,000,000-year compliance period in the radiation protection standard. Comments were due November 21, 2005, and are being reviewed by the EPA. The EPA is expected to issue a new safety standard for the repository later this year. The DOE originally planned to submit a license application to the NRC to construct the Yucca Mountain facility by the end of 2004. However, in November 2004, the DOE announced it

would not submit the license application until mid-2005 or later. The DOE did not submit the license application in 2005 and has since reported that the license application will be submitted by June 2008 if full funding is obtained for fiscal year 2008. The DOE requested $545 million for fiscal year 2007 and received $445 million. The DOE has requested $495 million for fiscal year 2008. The budget for fiscal year 2008 has not been finalized but the Senate Appropriations Committee has recommended funding of $446 million. The DOE has stated that if legislative changes requested by the Bush administration are enacted, the repository may be able to accept spent nuclear fuel starting in 2017, but 2020 is more probable due to anticipated litigation by the state of Nevada. The Utilities cannot predict the outcome of this matter.

With certain modifications and additional approvals by the NRC, including the installation of onsite dry cask storage facilities at Robinson, Brunswick and CR3, the Utilities' spent nuclear fuel storage facilities will be sufficient to provide storage space for spent fuel generated on their respective systems through the expiration of the operating licenses, including any license extensions, for their nuclear generating units. Harris has sufficient storage capacity in its spent fuel pools through the expiration of its operating license, including any license extensions.

SYNTHETIC FUELS MATTERS

A number of our subsidiaries and affiliates are parties to two lawsuits arising out of an Asset Purchase Agreement dated as of October 19, 1999, by and among U.S. Global, LLC (Global); the Earthco synthetic fuels facilities (Earthco); certain affiliates of Earthco; EFC Synfuel LLC (which is owned indirectly by Progress Energy, Inc.) and certain of its affiliates, including Solid Energy LLC; Solid Fuel LLC; Ceredo Synfuel LLC; Gulf Coast Synfuel LLC (currently named Sandy River Synfuel LLC) (collectively, the Progress Affiliates), as amended by an amendment to Purchase Agreement as of August 23, 2000 (the Asset Purchase Agreement). Global has asserted (1) that pursuant to the Asset Purchase Agreement, it is entitled to an interest in two synthetic fuels facilities currently owned by the Progress Affiliates and an option to purchase additional interests in the two synthetic fuels facilities, (2) that it is entitled to damages because the Progress Affiliates prohibited it from procuring purchasers for the synthetic fuels facilities and (3) a number of tort claims related to the contracts.

The first suit, U.S. Global, LLC v. Progress Energy, Inc. et al., asserts the above claims in a case filed in the Circuit Court for Broward County, Fla., in March 2003 (the Florida Global Case), and requests an unspecified amount of compensatory damages, as well as declaratory relief. The Progress Affiliates have answered the Complaint by generally denying all of Global's substantive allegations and asserting numerous substantial affirmative defenses. The case is at issue, but neither party has requested a trial. The parties are currently engaged in discovery in the Florida Global Case.

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

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

In December 2006, we reached agreement with Global to settle an additional claim in the suit related to amounts due to Global that were placed in escrow pursuant to a defined tax event. Upon the successful resolution of the IRS audit of the Earthco synthetic fuels facilities in 2006, and pursuant to a settlement agreement, the escrow totaling $42 million as of December 31, 2006, was paid to Global in January 2007. The remainder of the suit continues. We cannot predict the outcome of this matter.

OTHER LITIGATION MATTERS

We and our subsidiaries are involved in various litigation matters in the ordinary course of business, some of which involve substantial amounts. Where appropriate, we have made accruals and disclosures in accordance with SFAS No. 5, "Accounting for Contingencies," to provide for such matters. In the opinion of management, the final disposition of pending litigation would not have a material adverse effect on our consolidated results of operations or financial position.

14. CONDENSED CONSOLIDATING STATEMENTS

As discussed in Note 23 in the 2006 Form 10-K, we have guaranteed certain payments of two wholly owned indirect subsidiaries, FPC Capital I (the Trust) and Florida Progress Funding Corporation (Funding Corp.) since September 2005. Our guarantees are joint and several, full and unconditional and are in addition to the joint and several, full and unconditional guarantees previously issued to the Trust and Funding Corp. by Florida Progress Corporation (Florida Progress). Our subsidiaries have provisions restricting the payment of dividends to the Parent in certain limited circumstances and as disclosed in Note 12B in the 2006 Form 10-K, there were no restrictions on PEC's or PEF's retained earnings.

The Trust is a special-purpose entity and was deconsolidated in 2003 in accordance with the provisions of FIN 46R. The deconsolidation was not material to our financial statements. Separate financial statements and other disclosures concerning the Trust have not been presented because we believe that such information is not material to investors.

Presented below are the condensed consolidating Statements of Income, Balance Sheets and Cash Flows as required by Rule 3-10 of Regulation S-X. In these condensed consolidating statements, the Parent column includes the financial results of the parent holding company only. The Subsidiary Guarantor column includes the consolidated financial results of Florida Progress only. The Other column includes the consolidated financial results of all other non-guarantor subsidiaries and elimination entries for all intercompany transactions. All applicable corporate expenses have been allocated appropriately among the guarantor and non-guarantor subsidiaries. The financial information may not necessarily be indicative of results of operations or financial position had the Subsidiary Guarantor or other non-guarantor subsidiaries operated as independent entities. The accompanying condensed consolidating financial statements have been restated for all periods presented to reflect the operations of CCO, Gas, Dixie Fuels and other fuels business as discontinued operations as described in Note 3.

Condensed Consolidating Statement of Income
Three Months Ended June 30, 2007

(in millions)	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Operating revenues				
Electric	$ –	$ 1,129	$ 996	$ 2,125
Diversified business	–	266	15	281
Total operating revenues	–	1,395	1,011	2,406
Operating expenses				
Utility				
Fuel used in electric generation	–	411	305	716
Purchased power	–	207	76	283
Operation and maintenance	2	198	261	461
Depreciation and amortization	–	100	122	222
Taxes other than on income	–	76	49	125
Other	–	12	3	15
Diversified business				
Cost of sales	–	304	49	353
Depreciation and amortization	–	2	–	2
Other	–	6	2	8
Total operating expenses	2	1,316	867	2,185
Operating (loss) income	(2)	79	144	221
Other income, net	3	15	5	23
Interest charges, net	52	39	46	137
(Loss) income from continuing operations before income tax, equity in earnings of consolidated subsidiaries and minority interest	(51)	55	103	107
Income tax (benefit) expense	(24)	(6)	32	2
Equity in earnings of consolidated subsidiaries	(170)	–	170	–
Minority interest in subsidiaries' loss, net of tax	–	(26)	–	(26)
(Loss) income from continuing operations	(197)	87	241	131
Discontinued operations, net of tax	4	(4)	(324)	(324)
Net (loss) income	$ (193)	$ 83	$ (83)	$ (193)

Condensed Consolidating Statement of Income
Three Months Ended June 30, 2006

(in millions)	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Operating revenues				
Electric	$ –	$ 1,147	$ 935	$ 2,082
Diversified business	–	211	5	216
Total operating revenues	–	1,358	940	2,298
Operating expenses				
Utility				
Fuel used in electric generation	–	447	262	709
Purchased power	–	180	80	260
Operation and maintenance	3	178	236	417
Depreciation and amortization	–	98	136	234
Taxes other than on income	–	76	44	120
Other	–	1	(1)	–
Diversified business				
Cost of sales	–	214	13	227
Depreciation and amortization	–	5	5	10
Impairment of assets	–	44	47	91
Other	–	16	4	20
Total operating expenses	3	1,259	826	2,088
Operating (loss) income	(3)	99	114	210
Other income (expense), net	12	10	(5)	17
Interest charges, net	69	46	43	158
(Loss) income from continuing operations before income tax, equity in earnings of consolidated subsidiaries and minority interest	(60)	63	66	69
Income tax (benefit) expense	(26)	28	41	43
Equity in earnings of consolidated subsidiaries	(13)	–	13	–
Minority interest in subsidiaries' income, net of tax	–	7	–	7
(Loss) income from continuing operations	(47)	28	38	19
Discontinued operations, net of tax	–	28	(94)	(66)
Net (loss) income	$ (47)	$ 56	$ (56)	$ (47)

Condensed Consolidating Statement of Income
Six Months Ended June 30, 2007

(in millions)	**Parent**	**Subsidiary Guarantor**	**Other**	**Progress Energy, Inc.**
Operating revenues				
Electric	$ –	$ 2,140	$ 2,053	$ 4,193
Diversified business	–	502	45	547
Total operating revenues	–	2,642	2,098	4,740
Operating expenses				
Utility				
Fuel used in electric generation	–	796	656	1,452
Purchased power	–	370	134	504
Operation and maintenance	7	373	501	881
Depreciation and amortization	–	197	244	441
Taxes other than on income	–	150	99	249
Other	–	12	2	14
Diversified business				
Cost of sales	–	528	69	597
Depreciation and amortization	–	4	–	4
Gain on the sale of assets	–	(17)	–	(17)
Other	–	22	5	27
Total operating expenses	7	2,435	1,710	4,152
Operating (loss) income	(7)	207	388	588
Other income, net	9	21	10	40
Interest charges, net	99	84	95	278
(Loss) income from continuing operations before income tax, equity in earnings of consolidated subsidiaries and minority interest	(97)	144	303	350
Income tax (benefit) expense	(43)	(7)	71	21
Equity in earnings of consolidated subsidiaries	132	–	(132)	–
Minority interest in subsidiaries' loss, net of tax	–	(22)	–	(22)
Income from continuing operations	78	173	100	351
Discontinued operations, net of tax	4	(8)	(265)	(269)
Net income (loss)	$ 82	$ 165	$ (165)	$ 82

Condensed Consolidating Statement of Income
Six Months Ended June 30, 2006

(in millions)	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Operating revenues				
Electric	$ –	$ 2,154	$ 1,913	$ 4,067
Diversified business	–	454	–	454
Total operating revenues	–	2,608	1,913	4,521
Operating expenses				
Utility				
Fuel used in electric generation	–	841	558	1,399
Purchased power	–	345	144	489
Operation and maintenance	7	344	482	833
Depreciation and amortization	–	193	269	462
Taxes other than on income	–	149	90	239
Other	–	(2)	–	(2)
Diversified business				
Cost of sales	–	458	25	483
Depreciation and amortization	–	9	10	19
Impairment of assets	–	44	47	91
Other	–	22	8	30
Total operating expenses	7	2,403	1,633	4,043
Operating (loss) income	(7)	205	280	478
Other income (expense), net	2	38	(8)	32
Interest charges, net	146	94	81	321
(Loss) income from continuing operations before income tax, equity in earnings of consolidated subsidiaries and minority interest	(151)	149	191	189
Income tax (benefit) expense	(59)	47	84	72
Equity in earnings of consolidated subsidiaries	90	–	(90)	–
Minority interest in subsidiaries' income, net of tax	–	13	–	13
(Loss) income from continuing operations	(2)	89	17	104
Discontinued operations, net of tax	–	27	(133)	(106)
Net (loss) income	$ (2)	$ 116	$ (116)	$ (2)

Condensed Consolidating Balance Sheet
June 30, 2007

(in millions)	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Utility plant, net	$ –	$ 6,897	$ 8,854	$ 15,751
Current assets				
Cash and cash equivalents	–	28	58	86
Short-term investments	–	–	1	1
Notes receivable from affiliated companies	245	–	(245)	–
Deferred fuel cost	–	7	221	228
Assets of discontinued operations	–	27	6	33
Other current assets	31	1,182	1,262	2,475
Total current assets	276	1,244	1,303	2,823
Deferred debits and other assets				
Investment in consolidated subsidiaries	10,851	–	(10,851)	–
Goodwill	–	1	3,654	3,655
Other assets and deferred debits	141	1,543	1,489	3,173
Total deferred debits and other assets	10,992	1,544	(5,708)	6,828
Total assets	$ 11,268	$ 9,685	$ 4,449	$ 25,402
Capitalization				
Common stock equity	$ 8,240	$ 2,875	$ (2,875)	$ 8,240
Preferred stock of subsidiaries – not subject to mandatory redemption	–	34	59	93
Minority interest	–	34	4	38
Long-term debt, affiliate	–	309	(38)	271
Long-term debt, net	2,595	2,388	3,182	8,165
Total capitalization	10,835	5,640	332	16,807
Current liabilities				
Current portion of long-term debt	–	249	500	749
Short-term debt	169	–	–	169
Notes payable to affiliated companies	–	310	(310)	–
Liabilities of discontinued operations	–	7	2	9
Other current liabilities	217	1,165	670	2,052
Total current liabilities	386	1,731	862	2,979
Deferred credits and other liabilities				
Noncurrent income tax liabilities	–	59	184	243
Regulatory liabilities	–	1,162	1,233	2,395
Accrued pension and other benefits	11	376	564	951
Other liabilities and deferred credits	36	717	1,274	2,027
Total deferred credits and other liabilities	47	2,314	3,255	5,616
Total capitalization and liabilities	$ 11,268	$ 9,685	$ 4,449	$ 25,402

Condensed Consolidating Balance Sheet
December 31, 2006

(in millions)	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Utility plant, net	$ –	$ 6,337	$ 8,908	$ 15,245
Current assets				
Cash and cash equivalents	153	40	72	265
Short-term investments	21	–	50	71
Notes receivable from affiliated companies	58	37	(95)	–
Deferred fuel cost	–	–	196	196
Assets of discontinued operations	–	45	842	887
Other current assets	27	1,109	1,030	2,166
Total current assets	259	1,231	2,095	3,585
Deferred debits and other assets				
Investment in consolidated subsidiaries	10,740	–	(10,740)	–
Goodwill	–	1	3,654	3,655
Other assets and deferred debits	126	1,583	1,507	3,216
Total deferred debits and other assets	10,866	1,584	(5,579)	6,871
Total assets	$ 11,125	$ 9,152	$ 5,424	$ 25,701
Capitalization				
Common stock equity	$ 8,286	$ 2,708	$ (2,708)	$ 8,286
Preferred stock of subsidiaries – not subject to mandatory redemption	–	34	59	93
Minority interest	–	6	4	10
Long-term debt, affiliate	–	309	(38)	271
Long-term debt, net	2,582	2,512	3,470	8,564
Total capitalization	10,868	5,569	787	17,224
Current liabilities				
Current portion of long-term debt	–	124	200	324
Notes payable to affiliated companies	–	77	(77)	–
Liabilities of discontinued operations	–	13	176	189
Other current liabilities	210	1,281	814	2,305
Total current liabilities	210	1,495	1,113	2,818
Deferred credits and other liabilities				
Noncurrent income tax liabilities	–	61	245	306
Regulatory liabilities	–	1,091	1,452	2,543
Accrued pension and other benefits	14	377	566	957
Other liabilities and deferred credits	33	559	1,261	1,853
Total deferred credits and other liabilities	47	2,088	3,524	5,659
Total capitalization and liabilities	$ 11,125	$ 9,152	$ 5,424	$ 25,701

Condensed Consolidating Statement of Cash Flows
Six Months Ended June 30, 2007

(in millions)	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Net cash provided by operating activities	$ 37	$ 207	$ 141	$ 385
Investing activities				
Gross utility property additions	–	(489)	(406)	(895)
Nuclear fuel additions	–	(22)	(75)	(97)
Proceeds from sales of discontinued operations and other assets, net of cash divested	–	26	621	647
Purchases of available-for-sale securities and other investments	–	(103)	(279)	(382)
Proceeds from sales of available-for-sale securities and other investments	21	103	309	433
Changes in advances to affiliates	(187)	37	150	–
Other investing activities	(3)	(10)	3	(10)
Net cash (used) provided by investing activities	(169)	(458)	323	(304)
Financing activities				
Issuance of common stock	122	–	–	122
Net increase in short-term debt	169	–	–	169
Retirement of long-term debt	–	(2)	–	(2)
Dividends paid on common stock	(311)	–	–	(311)
Dividends paid to parent	–	(10)	10	–
Changes in advances from affiliates	–	233	(233)	–
Cash distributions to minority interests of consolidated subsidiary	–	(10)	–	(10)
Other financing activities	(1)	32	(48)	(17)
Net cash (used) provided by financing activities	(21)	243	(271)	(49)
Cash used by discontinued operations				
Operating activities	–	(3)	(207)	(210)
Investing activities	–	(1)	–	(1)
Net decrease in cash and cash equivalents	(153)	(12)	(14)	(179)
Cash and cash equivalents at beginning of period	153	40	72	265
Cash and cash equivalents at end of period	$ –	$ 28	$ 58	$ 86

Condensed Consolidating Statement of Cash Flows
Six Months Ended June 30, 2006

(in millions)	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Net cash provided by operating activities	$ 254	$ 511	$ 180	$ 945
Investing activities				
Gross utility property additions	–	(362)	(307)	(669)
Nuclear fuel additions	–	(6)	(56)	(62)
Proceeds from sales of discontinued operations and other assets, net of cash divested	–	137	84	221
Purchases of available-for-sale securities and other investments	(163)	(329)	(464)	(956)
Proceeds from sales of available-for-sale securities and other investments	163	383	580	1,126
Changes in advances to affiliates	164	(2)	(162)	–
Other investing activities	(4)	(2)	(9)	(15)
Net cash provided (used) by investing activities	160	(181)	(334)	(355)
Financing activities				
Issuance of common stock	60	–	–	60
Proceeds from issuance of long-term debt, net	397	–	–	397
Net decrease in short-term debt	–	(102)	(73)	(175)
Retirement of long-term debt	(800)	(2)	–	(802)
Dividends paid on common stock	(303)	–	–	(303)
Dividends paid to parent	–	(163)	163	–
Changes in advances from affiliates	–	(114)	114	–
Cash distributions to minority interests of consolidated subsidiary	–	(74)	–	(74)
Other financing activities	(7)	8	(42)	(41)
Net cash (used) provided by financing activities	(653)	(447)	162	(938)
Cash provided (used) by discontinued operations				
Operating activities	–	81	24	105
Investing activities	–	(96)	(2)	(98)
Net (decrease) increase in cash and cash equivalents	(239)	(132)	30	(341)
Cash and cash equivalents at beginning of period	239	239	127	605
Cash and cash equivalents at end of period	$ –	$ 107	$ 157	$ 264

Exhibit B(1)

Exhibit B(1)

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

	12 Months Ending December 31, 2008
OPERATING ACTIVITIES	$ 626
INVESTING ACTIVITIES:	
Construction Expenditures	(1,586)
Other Investing Activities	(69)
Total	(1,655)
FINANCING ACTIVITIES:	
Issuance / (Retirement) of Long-Term Debt	1,068
Increase (Decrease) in Short-Term Debt	(37)
Equity Contributions from / (Dividends to) Parent, net	-
Preferred Dividends	(2)
Total	1,029
TOTAL INCREASE (DECREASE) IN CASH	$ 0

Exhibit B(2)

Exhibit B(2)

PROGRESS ENERGY FLORIDA, INC.
PRELIMINARY CONSTRUCTION EXPENDITURES FOR 2008
(In Millions)

BUDGET CLASSIFICATION	**PRELIMINARY BUDGET**
PRODUCTION PLANT	1,041
TRANSMISSION PLANT	262
DISTRIBUTION PLANT	251
GENERAL PLANT	32
TOTAL LESS AFUDC	**$ 1,586**

Exhibit C

Exhibit C

PROGRESS ENERGY FLORIDA, INC.
CAPITAL STOCK AND LONG-TERM DEBT
As Of September 30, 2007

Title of Class	Shares Authorized	Shares Outstanding	Amount Outstanding
Common Stock without par value	60,000,000	100[1]	N/A
Cumulative Preferred Stock (Par Value $100):			
4.00% Series	40,000	39,980	$ 3,998,000
4.40% Series	75,000	75,000	7,500,000
4.58% Series	100,000	99,990	9,999,000
4.60% Series	40,000	39,997	3,999,700
4.75% Series	80,000	80,000	8,000,000
Total Cumulative Preferred Stock Outstanding			$ 33,496,700
First Mortgage Bonds:			
6-7/8% Series, due 2008			$ 80,000,000
4.50% Series, due 2010			300,000,000
6.65% Series, due 2011			300,000,000
4.80% Series, due 2013			425,000,000
5.10% Series, due 2015			300,000,000
5.80% Series, due 2017			250,000,000
5.90% Series, due 2033			225,000,000
6.35% Series, due 2037			500,000,000
Citrus County 2002, Series - A, Due 2027			108,550,000
Citrus County 2002, Series - B, Due 2022			100,115,000
Citrus County 2002, Series - C, Due 2018			32,200,000
Total First Mortgage Bonds Outstanding			$2,620,865,000

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