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Progress Energy Florida, Inc.
Risk Management Plan for
Fuel Procurement and Wholesale Power Purchases
For 2010

As required by Order No. PSC-02-1484-FOF-EI in Docket No. 011605-EI, Progress Energy Florida, Inc (PEF) is submitting its 2010 Risk Management Plan for review by the Florida Public Service Commission. The Risk Management Plan includes the required items as outlined in Attachment A of Order No. PSC-02-1484-FOF-EI and specifically items 1 through 9, and items 13 through 15 as set forth in Exhibit TFB-4 to the prefiled testimony of Todd F. Bohrmann of Docket No. 011605-EI.

Several groups play key roles in the management, monitoring, and analyzing of the activities outlined in PEF's Risk Management Plan. These groups include Fuels and Power Optimization (FPO), Enterprise Risk Management which includes Corporate Credit and Risk Analytics and Reporting, Back Office, Accounting, Regulatory Contracts and Fuel Accounting, Financial Services, Audit Services, and IT Development and Support. The activities supported by these groups include procuring competitive priced fuel, performing asset optimization and portfolio management, executing PEF's hedging strategy, monitoring and reporting against established limits for credit, hedging, performing credit evaluations and monitoring credit and default exposure, performing deal validation, volume actualization, preparing transaction confirmations, preparing journal entries to account for fuel and power related activities, performing billing and payments under the various fuel and purchased power contracts, performing audits, and maintaining and supporting systems that are used.

PEF's current fuel burn and economy purchase and sales activity projections for 2010 based on the July 2009 Fuels and Operation Forecast are as follows:

Coal

Based on current projections, PEF is forecasted to burn approximately [redacted] tons of coal in 2010. PEF's forecasted coal requirements for 2010 will be purchased primarily under term coal supply agreements. The coal supply will be delivered to PEF's plants via railroad and barge transportation agreements. Spot purchases will be made as needed.

COM ___
ECR ___
GCL 2
OPC ___
RCP 1
SSC ___
SGA 1
ADM ___
CLK ___

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Heavy Oil

Based on current projections, PEF is forecasted to burn approximately [redacted] barrels of heavy oil in 2010. PEF's forecasted heavy oil requirements for 2010 will be purchased primarily under term supply agreements with flexible volume provisions at indexed market prices. Spot market purchases will be made as needed.

Light Oil

Based on current projections, PEF is forecasted to burn approximately [redacted] barrels of light oil in 2010. PEF's forecasted light fuel oil requirements for 2010 will be purchased under term supply agreements with flexible volume provisions at indexed market prices. Spot market purchases will be made as needed.

Natural Gas

Based on current projections, PEF is forecasted to burn approximately [redacted] of natural gas in 2010 that is comprised of approximately [redacted] at PEF's generating plants and [redacted] at gas tolling purchased power facilities where PEF has the responsibility to purchase the natural gas. Estimates of usage at gas tolling facilities are generated through the normal course of the production cost modeling process. A majority of PEF's forecasted natural gas requirements for 2010 will be purchased primarily under term supply agreements that are based on market index pricing. In addition, daily and monthly purchases of natural gas will be made as needed.

Economy Power Purchases and Sales

Based on current projections, PEF is forecasted to purchase approximately [redacted] of economy power and sell approximately [redacted] of economy power in 2010. PEF actively seeks to purchase and sell economy power as opportunities arise based on market prices, dispatch costs, and available transmission capacity.

Item 1. Identify the company's overall quantitative and qualitative Risk Management Plan Objectives.

PEF's overall Risk Management Plan Objectives for 2010 are to effectively manage its overall fuel and purchased power costs for its customers by engaging in competitive fuel procurement practices and activities, performing active asset optimization and portfolio management activities, and continuing to execute the company's hedging program which over time will reduce the impacts of fuel price risk and volatility.

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Item 2. Identify the minimum quantity of fuel to be hedged for 2010 and the activities to be executed.

PEF's target hedge percentages for calendar year 2010 burns are to hedge between [redacted] and [redacted] of its forecasted annual natural gas and heavy oil burns. The annual hedging targets that makeup PEF's hedging strategy were developed and formalized over time as PEF's overall hedging activity evolved and expanded through reviews by various groups including Enterprise Risk Management (ERM), Fuels, Accounting, Regulatory Planning, and the applicable Risk Committees. The target annual ranges are outlined in the Progress Energy Florida Fuels and Power Optimization Risk Management Guidelines, which are reviewed to ensure the Guidelines meet the Company's objectives and provide oversight and independent checks and controls, meet the intent of the Hedging Order, and are appropriate based on on-going market conditions. Included in the natural gas burn projections for 2010 are estimates of natural gas burns at PEF's owned generation facilities and two gas tolling purchased power agreements where PEF has the responsibility for purchasing the natural gas. The tolling power purchase facilities are Shady Hills and Vandolah. A gas tolling purchased power agreement is where the buyer has the right to all or a portion of the seller's generation resource via a contractual relationship. For the right to utilize the seller's generation resource, the buyer generally will pay the seller a negotiated monthly capacity payment and variable operation and maintenance costs per MWHr based on actual usage. The natural gas volumes associated with tolling purchased power agreements are included in PEF's natural gas usage forecasts and the annual hedge targets for natural gas.

With respect to light oil, PEF will hedge at least [redacted] of its forecasted annual light oil burns over time for 2010. Light oil has lower annual hedging targets than natural gas and heavy oil because actual light oil fuel burns can experience greater deviations due to, but not limited to, economics, load deviations, and purchase power opportunities. In addition to continuing to hedge a percentage of its annual forecasted natural gas and fuel oil burns, PEF expects to begin executing oil product financial hedges to hedge a portion of the oil related fuel surcharge embedded in the coal railroad and barge transportation in 2010. The FPSC approved this activity in Docket 080649-EI, Order No. PSC-09-0349-CO-EI.

The annual hedging targets for each of the respective periods in the Risk Guidelines provide the basis for executing the company's long-term strategy of layering in fixed price transactions over time for a portion of forecasted annual fuel burns. This allows PEF to monitor periodic fuel forecast updates and to move from one calendar period to another more effectively. The volumes that are hedged over time are based on periodic forecasts based on these updated forecasts. Actual hedge percentages can come in higher or lower than targets as a result of actual versus forecasted fuel burns.

As part of its regular review of its hedging activities, in the second quarter of 2009, three new reporting limits were implemented to provide additional oversight and visibility on potential collateral margin levels under stressed price scenarios. These new reporting limits are forward looking and indicators of potential margin exposures under stressed commodity market conditions. The new reporting limits are Value at Risk (VAR), Potential Margin at Risk, and Volumetric Tenor on financial marginable transactions. These new reporting limits do not change PEF's hedging strategy. They were implemented to provide additional oversight on potential posted margin collateral levels given the dramatic and rapid decline in natural gas and oil prices over the last 12 months as a result of the global economic downturn and the resulting market conditions. The Company will continue to monitor the impacts that the current economic downturn could have on forecasted fuel burns and commodity prices. As a result of these additional reporting limits, PEF will not execute additional financial or physical fix price hedges during the remainder of 2009 or in 2010 for the periods of 2013 through 2015. As of the date of this Risk Management Plan, PEF has executed hedging transactions for periods through 2015 for natural gas, through 2012 for No. 6 oil, and through 2010 for No. 2 oil.

The hedging program continues to be well managed and independently monitored and does not involve speculation or trying to "out guess" the market. PEF determines the volume to be hedged over time by taking the targeted hedge percentage for each respective period and multiplying the percentage (or range) by the projected annual natural gas, heavy oil and light oil burns for the respective periods. As PEF moves through the remainder of 2009 and into 2010, PEF continues to monitor its fuel forecast and expects to execute additional hedges by periodically entering into approved fixed price physical and financial transactions for a portion of its projected 2010 burns. In addition, as outlined above, PEF will also continue to execute hedges over time for 2011 and 2012. This hedging approach is consistent with PEF's existing strategy and allows PEF to continue to monitor the market and fuel forecast updates. The results of the hedging activities may or may not result in net fuel cost savings, but will achieve the objective of reducing the impacts of fuel price risk and volatility experienced by PEF's customers over time. The annual hedge targets for each of the respective periods are included in PEF's Risk Management Guidelines in Attachment A.

Item 3. <u>Identify and quantify each risk, general and specific, that the utility may encounter with its fuel procurement.</u>

PEF has identified specific and general risks associated with the procurement of fuels and power optimization activities. The specific risks include fuel price and volatility risk, supplier performance and default risk, liquidity risk, credit risk, product availability risk, and changes in forecasted volumes. The general risks include unforeseen extended plant outages, weather related events such as hurricanes, weather variations from daily forecast, and business continuity. Described below are the specific and general risks that PEF is exposed to and the activities that PEF undertakes to reduce the overall exposure to these known risks. In addition, the processes that PEF has in place to monitor and quantify these risks are also described.

Price and Volatility Risk

PEF's customers are exposed to the risk of fuel price volatility which could result in significant increases in fuel costs. For natural gas, heavy oil and light oil, the physical fuel is procured under standard industry contracts that are based on published market index pricing that exists at the time the fuel is delivered. The published market index prices paid by PEF for these fuels will fluctuate with daily changes in market prices until the respective first of the month market index or daily-published market index price settles and the product is delivered. For coal, PEF executes standard industry supply agreements to fix and/or collar the price of the underlying coal. Absent hedging as defined by Order No. PSC-02-1484-FOF-EI (the Hedging Order) and fixed price coal supply contracts, the projected costs for coal, natural gas, heavy oil, and light oil fuel purchases could increase due to rising and volatile market prices over time.

PEF manages and reduces fuel price risk and volatility for its forecasted natural gas and fuel oil burns by executing standard industry fixed price physical and financial swap and option agreements over time for a portion of its forecasted annual burns. As outlined above, PEF enters into standard industry supply agreements to fix the price of the underlying coal. As a result of these actions, PEF reduces its overall exposure to volatile fuel prices for its customers.

With respect to monitoring and quantifying price and volatility risk, Enterprise Risk Management (ERM) independently monitors and reports on the percentage of projected fuel burns that have been hedged and purchased under physical and financial agreements as compared to the established annual hedge and procurement targets for each respective product and period. In addition, the Company performs periodic fuel and purchased power cost forecasts, which incorporate any updates needed for financial and physical hedge positions, commodity prices, unit maintenance schedules, load forecasts, and other operating parameters. The updated fuel and purchased power forecasts are point in time estimates and are summarized and published to ensure there is a regular review of projected fuel and purchased power costs. Lastly, as needed, ERM performs standard statistical stress tests, portfolio analysis, and Value at Risk calculations to determine potential impacts of changing and volatile prices.

Supplier Performance and Default Risk

Supplier performance and default risk represent the risk of financial loss and/or supply loss that PEF could incur if a supplier defaults on a physical or financial obligation and is not able to fulfill the terms of an agreement. The estimated aggregate dollar amount of supplier performance and default risk for the portfolio is based on the volume, duration and price of the agreements as compared to the current estimated market value of the agreements.

PEF reduces supplier performance risk by conducting business with a number of approved suppliers, executing agreements within contract approval limits and credit parameter limits, monitoring delivery performance of suppliers and, if possible, incorporating contractual provisions that allow for non-performance remedies in the case of default. In addition, PEF maintains on-site inventories for coal, heavy oil and light oil to further reduce this risk. For activities associated with hedging under financial agreements, the Credit function within ERM monitors all open positions and reviews the estimated market exposure for each third party company on a daily basis to ensure that PEF has the appropriate collateral balances as compared to contractual thresholds.

With respect to monitoring and quantifying the level of supplier performance and default risk in fuel agreements, ERM independently calculates, monitors and reports on the amount of default risk associated with coal, natural gas and fuel oil financial and physical agreements. The review is based on contractual volumes, duration and prices as compared to the current estimated value of the open positions in the agreements that have yet to be delivered or financially settled. See Attachment B for PEF's estimated Portfolio Default Exposure Report as of July 1, 2009.

Liquidity Risk

Liquidity risk represents the risk that PEF could not meet the collateral requirements generated from fuel hedging agreements if fuel prices fall substantially. As discussed above, PEF manages and reduces fuel price risk and volatility for its forecasted natural gas and fuel oil burns by executing standard industry fixed price physical and financial swap and option agreements. To manage default risk, most of these agreements contain provisions that require the posting of collateral if contractual thresholds are surpassed. The collateral requirements of the portfolio are based on the volume, duration, prices, and collateral threshold levels of the agreements as compared to the current estimated market value of the agreements.

PEF manages and reduces liquidity risk by conducting business with a number of approved suppliers to maximize the collateral threshold levels in individual agreements and by using a mix of hedging instruments that do not all have the same impact on collateral requirements. For activities associated with hedging under financial agreements, the Credit function within ERM monitors all open positions and reviews the estimated market exposure for each third party company on a daily basis to ensure that PEF only posts the appropriate collateral balances as compared to contractual thresholds.

With respect to monitoring and quantifying the level of liquidity risk in fuel agreements, ERM independently calculates, monitors and reports on the amount of liquidity risk associated with coal, natural gas and fuel oil financial and physical agreements. The review is based on contractual volumes, duration and prices as compared to the current estimated value of the open positions in the agreements that have yet to be delivered or financially settled. ERM performs standard statistical stress tests, portfolio analysis and Value at Risk calculations to determine potential impacts on liquidity risk of changing and volatile commodity prices on marginable positions.

Credit Risk

On a daily basis, PEF's Credit function within ERM calculates, monitors, and reports on the Company's overall credit risk. The Credit function utilizes standard industry credit evaluation practices and has specific criteria that are used to measure credit risk and ensure counterparties' credit is monitored and reviewed. The Credit function monitors all positions and reviews the mark-to-market exposure for each third party company to ensure that based on the current market value of open hedge positions and the credit quality of the third party companies the appropriate level of collateral is posted or received as compared to the contractually established threshold.

With respect to financial transactions, prior to executing any financial transaction with a third party company, two activities take place. First, PEF and the third party company must have an International Swap Dealer Agreement (ISDA) in place. The ISDA is a standard industry contract that is used by industry participants to enter into Over the Counter bi-lateral transactions (OTC transactions). All ISDA agreements are negotiated by the Legal group and reviewed by Credit, FPO and Accounting to ensure the appropriate terms and conditions are included. As part of the process of setting up a new financial agreement, a credit evaluation is performed on the third party company by the Credit function. There are universal principles of credit strength that are evaluated before credit is granted. Among these principles are company size, industry characteristics and trends, profitability, liquidity, cash flow, interest and fixed charge coverage and capital structure. In addition, both external and internal evaluation models are used to evaluate third party companies' credit. PEF evaluates counterparties using a consistent analytical approach and the credit ratings are based on both external ratings and the evaluation of key counterparty attributes identified as leading indicators for financial performance. The credit rating process includes obtaining counterparty background information, identifying any existing Standard & Poor's (S&P) and/or Moody's ratings for the counterparty, and performing a financial statement analysis. The financial statement analysis includes, but is not limited to, a review of revenue trends, metric calculations and trends evaluation for Free Funds from Operations, Total Debt to Tangible Net Worth, Funded Debt to Capital, Interest Coverage, Operating Cash Flow and Liquidity. If the counterparty is a bank, the Tier I, Tier II and Total Capital Ratios are either researched or calculated and compared to Basel I and most recently Basel II minimums because capital adequacy and liquidity are of paramount importance to the Company's counterparty credit analysis. In addition, company financial information is entered into the Company's proprietary credit model, which generates a score that helps validate existing agency ratings and provides a means to determine if any necessary internal rating adjustments are needed. Once the credit evaluation is complete, a credit rating is assigned to the third party company and, if appropriate, a credit line is extended. The assigned credit rating and credit limit dictate the size and duration of financial hedging transactions that PEF can enter into with a third party company.

There are additional steps that the Credit function may take during times of economic uncertainty and market events such as those that have occurred over the last 12 to 18 months. For example, during the current financial crisis, the financial counterparties that were categorized as banks were monitored by the Credit function on a more frequent basis. During this time the banks were monitored as frequently as intraday and are currently being monitored on a quarterly basis. The monitoring activities are comprised of a financial evaluation, a review of third party agency ratings and a review of recent news about the company.

As described, on a daily basis the Credit function independently monitors, calculates and reports on collateral exposure. In addition, with respect to monitoring agreements that require the posting of margin based on established contractual thresholds, the company may ask for margin or send out margin to the third party company to ensure exposures are within established contractual thresholds. See Attachment C for the PEF collateral report as of July 1, 2009.

Product Availability and Changes in Forecasted Volumes

PEF must have access to needed physical fuel supplies, adequate product delivery capabilities and inventory to meet projected fuel requirements. Without access to needed fuel supply and inventory, PEF is exposed to the risk of not being able to economically and reliably dispatch the generation fleet.

PEF manages and reduces this risk by entering into standard industry physical supply contracts as well as needed pipeline, railroad, barge and trucking agreements for the purchase and delivery of coal, natural gas, heavy oil and light oil provide the supply and flexibility to meet projected burns. In addition, PEF maintains on-site inventory for coal, heavy oil and light oil to provide fuel supplies to support on-going operations and ensure supplies are available for unexpected delivery delays, storm curtailments, and events that could affect fuel supply availability. PEF holds off-site high deliverability natural gas storage capacity that provides additional access for a portion of its natural gas needs when natural gas supplies are curtailed. In addition, PEF's onshore gas supplies will continue to grow in 2010 as additional supply becomes available to PEF via contractual volumes that will increase and flow into the Southeast Supply Header and the Transco Mobile Bay South Lateral. In addition, PEF will continue to buy from an existing long-term purchase for LNG volumes that are delivered out of Elba Island and into Florida via the Cypress Pipeline. PEF actively monitors actual fuel burns, forecasted fuel burns and inventories over time. Based on these reviews, PEF may make procurement adjustments and hedging adjustments to manage the amount and delivery timing of contracted supplies as a result of actual and changes to forecasted fuel burns and inventory levels that can be caused by economic factors, weather deviations, fuel-switching trends and opportunities, plant outages, and purchased power opportunities.

With respect to monitoring and quantifying the level of risk associated with ensuring adequate fuel supply, ERM independently monitors and reports on the amount of fuel procured versus projected burns. In addition, the front office performs analysis and produces reports that quantify the amount of fuel needed to support projected burns and inventory needs. Lastly, the Company performs periodic forecast for fuel burns and purchased power and produces summary reports for review and monitoring of projected fuel burns.

General Risks

PEF is subject to unforeseen and extended plant outages that could occur during peak demand periods. To manage this potential risk, PEF maintains the required capacity reserve margins, maintains demand side load management protocols and has experienced trading professionals that engage the market as needed to buy power. Secondly, PEF is subject to weather events such as hurricanes. As detailed above, PEF reduces the overall risks associated with storms and other potential fuel delivery curtailments and delays by maintaining on-site inventories and off-site inventories and continuing to diversify its natural gas supply to more secure onshore locations as the Company's overall gas generation grows. PEF is subject to events that could require FPO employees to perform required work functions at locations other than their normal work location. With respect to this risk, the FPO Department has business continuity plans in place that are reviewed and tested periodically to address this risk.

Item 4. Describe the company's oversight of its fuel procurement activities.

The Board of Directors of the Company has established a Risk Management Policy that directs the Risk Management Committee (RMC) to oversee Progress Energy's financial risks. The RMC is comprised of senior executives from varying functional areas. The RMC is responsible for administering necessary risk management guidelines and policies, and monitoring compliance with these guidelines and policies. In addition, the RMC is responsible for identifying and monitoring corporate financial risks, recommending aggregate market and credit risk allocations as needed for Board of Directors approval, approving risk management guidelines and controls, approving trading products, reviewing credit exposures, and reviewing fuel hedging and procurement activities.

PEF has included the Company's Risk Management Policy and the Company's Risk Management Committee Guidelines as Attachments D and E.

With respect to day-to-day independent oversight and controls for the FPO activities, the company uses the "three-office" structure which includes FPO (Front Office), ERM (Middle Office) and Accounting (Back Office) to provide the necessary independent oversight and monitoring of its fuel procurement, power optimization and hedging activities.

The "three-office" structure is an accepted industry practice with the Front Office, Middle Office, and Back Office each functioning as independent departments, which ensures the required segregation of duties and the existence of independent oversight and controls over key activities. In addition, the Contract Services and Legal organizations provide critical contractual support to ensure that the Front Office contracts are reviewed and contain legal provisions to reduce risks that could affect the Company. In addition, the IT Enterprise Application Solution Support organization provides on-going support related to trading system operations and functioning. Treasury and Disbursement Services provide appropriate support when disbursing funds to counterparties via checks, wires or automated clearinghouse payments. All of these support organizations are independent from the Front Office.

<u>Front Office</u>

PEF has a very structured procurement process where Requests for Proposals are issued periodically to procure needed competitive fuel supply. As noted above, the fuel procurement activity is supported by the Contract Services and Legal functions. Front Office management is responsible for ensuring employees are authorized before they are allowed to trade commodities on the Company's behalf. In addition, there is a corporate approval matrix, which provides the required approvals for fuel related procurement activity based on estimated costs and duration of fuel related contracts. PEF has included the Risk Management Guidelines and Credit

Risk Management Guidelines in Attachments A and F.

Middle Office

ERM monitors Front Office activity by quantifying, monitoring, and reporting risks associated with fuel procurement, power optimization and hedging activities. ERM is accountable to the enterprise for independent oversight, measurement, and reporting of Front Office activities to management. ERM monitors and reports on Front Office activities and will report immediately any non-compliance as required within the reporting and control limit structures as defined by the Risk Management Guidelines. Lastly, ERM publishes credit limit and exposure reports to ensure that counterparty credit limits are monitored and adhered to and administers margin activity as required under agreements with counterparties to reduce credit and default risk.

Back Office

Accounting is also independent from Front Office and performs the following control functions, among other things, on a daily, weekly or monthly basis: deal validation, volume and price actualization, transaction confirmations, close accounting, general ledger balance sheet account reconciliations, settlements/cash transfers, processing payments/receipts, accounting for hedging activities and derivatives, and performing certain compliance activities as defined and/or required by various regulatory agencies (e.g. Securities and Exchange Commission, Financial Accounting Standards Board, Federal Energy Regulatory Commission, Public Service Commission). Related to accounting for hedging activities and derivatives, Progress Energy's FAS No. 133 policy is followed. This policy is reviewed and updated at least annually.

Item 5. Verify that the utility provides its fuel procurement activities with independent and unavoidable oversight.

As described in Item 4, the Company has a robust independent oversight culture with processes in place to ensure the identification, monitoring, and reporting of risks accompanying independent controls for monitoring and reporting on fuel procurement, power optimization, and hedging activities. The key components of the oversight functions and processes are described below.

RMC

The Company's Board of Directors has established a Risk Management Policy that directs the RMC to oversee PEF's financial risks. The RMC members are as follows:

- Chairman, President & Chief Executive Officer of Progress Energy
- SVP & Chief Financial Officer – Progress Energy Inc. (Chair)

- President & Chief Executive Officer-Progress Energy Carolinas SVP & General Counsel – Progress Energy, Inc.
- EVP & Corporate Secretary
- SVP Power Operations
- VP- Treasurer and Chief Risk Officer

The RMC assesses and monitors financial risks. This includes reviews of hedging and fuel procurement as well as market and credit risk exposures. In addition, the RMC approves the Risk Management and Credit Risk Management Guidelines including approval for any new products and strategies.

ERM

The Company has an independent ERM section, which is overseen by the Director of ERM who reports to the Treasurer and CRO. The ERM group is comprised of a Corporate Credit function section and a Risk Analytics and Reporting function. ERM's credit function provides independent credit evaluation of trading and procurement counterparties, performs credit reviews of the company's suppliers and customers, and assists in drafting and reviewing credit language in various agreements, and monitors and reports on credit exposures daily. ERM's Risk Analytics and Reporting function independently reports on fuel procurement and hedging activities and performs independent analysis as required. ERM independently prepares credit and risk summary reports, validates positions, performs mark-to-market calculations, administers margin activity with counterparties, and performs independent reviews of company activities as required.

Guidelines

As part of the overall risk management structure and oversight process at the company, the Risk Management Guidelines and Credit Risk Management Guidelines have been established and are reviewed, updated and approved by the RMC at least annually.

PEF's Risk Management Guidelines provide the methods to assess, quantify, report, and monitor the activities associated with fuel procurement contracts, fuel hedging activities, and power activities. In addition, these Guidelines outline approved products, approved periods, and risk parameters such as reporting and control limits for margin capital, credit exposure, Value at Risk (VAR), and annual hedging targets. PEF's Credit Risk Management Guidelines provide the methodology to evaluate, measure, mitigate, and report credit associated with FPO activities. In addition, the Credit Risk Management Guidelines outline specific contract duration criteria for counterparties based on standard industry credit metrics and methods.

Audit Services

Audit Services provides independent assurance and consulting services that ensure compliance, effective corporate governance, adherence to established procedures and operational effectiveness for all major areas of the Company. With respect to FPO activities, Audit Services performs periodic audits that focus on items such as compliance with established procedures, off premise activity, payment terms under fuel contracts and other trading and procurement activities.

Item 6. Describe the utility's corporate risk policy regarding fuel procurement activities.

The utility risk policy requires the oversight of the Company's business and financial risks. As described in detail in item 4 the company has developed management oversight functions and processes, specific guidelines, approval processes and procedures that must be followed with respect to fuel procurement, power optimization and hedging activities.

Item 7. Verify that the utility's corporate risk policy clearly delineates individual and group transaction limits and authorizations for all fuel procurement and hedging activities.

The utility has guidelines and procedures in place that outline individual and group limits and authorizations for procurement and hedging activities. These guidelines and procedures are outlined in detail in responses to items 4 and 5. A summary of the applicable procedures are attached as part of the response to item 9.

Item 8. Describe the utility's strategy to fulfill its risk management objectives.

The Company's strategy to fulfill its risk management objectives is executed by having a well defined fuel procurement and hedging approach and an active real-time power optimization and portfolio management activities. In addition, the Company has an established hedging program governed by independent controls, appropriate organizational design and oversight, deal approval requirements, credit and risk management guidelines, and documented procedures.

One of the components of PEF's Risk Management Plan is to procure fuel in a competitive manner and to hedge prices for a portion of forecasted burns over time. Examples of executing these components of the program include periodic Request for Proposals issued by PEF to solicit competitive bids for coal, natural gas and fuel oil supply, and the execution of fixed price physical and financial natural gas and fuel oil agreements to lock in prices for a portion the Company's forecasted burns over time. In addition, the Power Optimization and Portfolio Management sections actively monitor the dispatch of the generation fleet and actively seek opportunities to execute economic purchases and sales.

In addition to the commercial activities being performed to fulfill the objectives of the Risk Management Plan, for the plan to be deemed successful, the activities must be governed by independent oversight, segregation of duties and effective guidelines, procedures and internal controls. The Company has established controls, guidelines, procedures and organizations to support and independently monitor fuel procurement, hedging and power optimization activities.

The Risk Management Plan is executed through the efforts of experienced professionals who ensure the program's activity is conducted and executed in a manner consistent with the Company's overall strategy, guidelines and business practices. As noted in items 4 and 5, the Company has a robust oversight culture and processes that includes oversight by the RMC, periodic audits by Audit Services, and independent reporting and credit monitoring by ERM to ensure adherence to established guidelines and procedures.

Item 9. <u>Verify that the utility has sufficient policies and procedures to implement its strategy.</u>

PEF maintains sufficient guidelines and procedures to implement its strategy. Please see Attachment G for a summary listing of the applicable guidelines and procedures.

Item 13. <u>Describe the utilities reporting system for fuel procurement activities.</u>

The Company utilizes multiple systems and applications to track, record, account, and report on executed fuel procurement transactions. Descriptions of the primary systems, software and other tools are provided below.

Forecasted fuel burns are prepared by the Company using a production cost simulation model called GenTrader. Fuel and other commodity price forecasts, load forecasts, purchased power deal information, generating unit operating characteristics, maintenance schedules, and other pertinent data are input into GenTrader which then simulates the system and computes a projected fuel burn requirement.

Zai*Net is a software application used by the Company to capture natural gas physical procurement transactions as well as financial natural gas, heavy oil and light oil transactions. In addition to deal capture, Zai*Net is used for deal valuation, position management, mark-to-market calculations and settlements. Zai*Net is integrated with the Gas Management System (GMS) which is a natural gas scheduling tool used to match supply and deliveries. Once volumes are updated in GMS with actual volumes, there is a process that systematically updates the physical deals in Zai*Net.

The GMS is a software application used by the company to match supply, transport and deliveries for natural gas purchases, sales and transport activity and the administration of associated contracts. The system is integrated with Zai*Net as outlined above, which provides for greater efficiency and controls for gas related activities.

Fuelworx is a software application used by the company to capture and track physical procurement activity for coal and fuel oil. The system assists with administering contract terms and conditions, maintaining inventory levels, capturing fuel consumption information, and issuing monthly closeout processes, including invoicing, and settlements.

Front Office, ERM and Accounting utilize other programs such as Business Objects and Excel to summarize, evaluate and report on fuel procurement transactions, and counterparty credit evaluations. In addition, ERM maintains an Oracle database that stores market prices for various commodities and locations. Lastly, ERM's Analytics group utilizes Matlab, a computer programming language, to calculate VAR and run other scenarios as needed by the business units.

Lastly, the Company has agreements with vendors to provide real time pricing feeds to monitor real-time natural gas, fuel oil and power market prices.

Item 14. <u>Verify the utility's reporting system and other tools consistently and comprehensively identifies, measures and monitors all forms of risk associated with fuel procurement activities.</u>

As outlined in the response to item 13, the Company utilizes several applications to ensure procurement and hedging activities are captured, measured, monitored, confirmed, accounted for and reported. The company uses standard industry reporting templates, valuation techniques and applications. The current applications utilized by the company provide the necessary functionality for capturing deals, summarizing fuel positions, calculating mark-to-market valuations, calculating credit and collateral exposures, generating confirmations, supporting billing and payment requirements, and maintaining needed historical information such as prices and trade data.

Item 15. **If the utility has current limitations in implementing certain hedging techniques that would provide a net benefit to ratepayers, provide the details of a plan detailing the resources, policies, and procedures for acquiring the ability to use effectively the hedging techniques.**

PEF does not believe that there are any current limitations to effectively execute its hedging strategy.

Attachment A

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PEF Fuels & Power Optimization Risk Management Guidelines

(ERM-SUBS-00015)

(25 pages)

Regulated Fuels Hedging Portfolio

Attachment B

REDACTED

Regulated Fuels Hedging Portfolio
Total Default Exposure (MtM) by commodity

All figures as of: 6/30/2009

Progress Energy Florida, Inc.

$ in millions

Commodity		Total
Gas[A]	[redacted]	[redacted]
Fixed Price Physical	[redacted]	[redacted]
Fixed Swaps	[redacted]	[redacted]
Financial Options	[redacted]	[redacted]
Oil[B]	[redacted]	[redacted]
Fixed Swaps No.6	[redacted]	[redacted]
Financial Options No.6	[redacted]	[redacted]
Fixed Swaps No.2	[redacted]	[redacted]
Financial Options No.2	[redacted]	[redacted]
Coal[D]	[redacted]	[redacted]
Fixed Priced	[redacted]	[redacted]
Collar Priced	[redacted]	[redacted]
Market Priced	[redacted]	[redacted]
Ammonia[E]	[redacted]	[redacted]
		$ -
PEF Total	[redacted]	[redacted]

Notes

[redacted]

Progress Energy

Attachment C

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PEF Collateral Report

(2 pages)

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Attachment D

Risk Management Policy

Overview

[redacted]

[redacted]

[redacted]

Risk Management Committee

[redacted]

[redacted]

[redacted]

[redacted]

REDACTED

Risk Management Policy

Risk Management Tools

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Attachment E

REDACTED

Risk Management Committee Guidelines

(5 pages)

Attachment F

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Fuels and Power Optimization Credit Risk Management Guidelines

(13 pages)

Attachment G

REDACTED

Progress Energy Florida Guidelines and Procedures

Document Number	Document Title	Document Purpose
ERM-SUBS-00015	PEF Fuels & Power Optimization Risk Management Guidelines	[redacted]
ERM-SUBS-00020	Fuels and Power Optimization Credit Risk Management Guidelines	
MKT-FPOX-00023	FPO Trader Authorization Procedure	
MKT-FPOF-00052	FPO - PEF Short-Term Gas Procurement Process	
MKT-FPOF-00053	FPO - PEF Natural Gas Trade Ticket Process	
MKT-FPOF-00057	FPO - PEF Short-Term Transportation Capacity Process	
MKT-FPOF-00058	FPO - PEF Term Gas Supply and Transportation Policy	
MKT-FPOF-00073	FPO - PEF Long-Term Gas Supply Process	
MKT-FPOF-00081	FPO - PEF Short-Term Gas RFP Process	
MKT-FPOF-00087	FPO - PEF Long-Term Oil Procurement & RFP Process	
MKT-FPOF-00088	FPO - Spot Market PEF Oil Procurement Process	
MKT-FPOX-00041	FPO No. 2 & 6 Financial Oil Hedging Trade Ticket Process	
MCP-FFDX-00005	Coal Procurement Procedures	
MCP-FFDX-00003	Coal Sampling and Weighing Procedure	
ACT-SUBS-00002	Progress Energy Corporate Approval Level Policy	
MKT-FPOX-00016	FPO Power Trading Deal Confirmation Procedure	
MKT-RCOD-00025	RCO Credit Monitoring Procedure	
MKT-FPOF-00075	FPO - PEF Gas Trading Procedure for Off-Premise Transactions	
MKT-FPOF-00047	FPO - PEF Natural Gas Physical Monthly Setup Process	
MKT-SUBS-00026	Mid-Term Marketing Compliance Guidelines	
MKT-FPOX-00028	FPO Energy Trade Ticket Process	
MKT-FPOX-00033	FPO WebTrader Physical Deal Entry Process	
MKT-FPOX-00035	FPO – Power Real Time Trading Process	
MKT-RCOD-00062	RCO Physical Deal Scheduling	
MKT-FPOX-00090	FPO Operational Communications	
N/A	Risk Management Policy	
RMC --1	Risk Management Committee Guidelines	
ACT-SUBS-00080	Commodity Index Price Reporting	[redacted]

ACT-SUBS-000318	RCO and Regulated Fuel New Product Approval Process	[redacted]
MCP-FFDX-00004	Reagent Procurement Procedure	[redacted]
MCP-FPOX-00001	Coal Combustion Products Reuse Procedure	[redacted]
ADM-FFDX-00001	Freeze Conditioning of Coal Shipments	[redacted]
ADM-SUBS-00046	Fuelworx User Access & Security	[redacted]
MKT-FPOF-00051	PEF - Natural Gas Scheduling Process	[redacted]
MKT-FPOF-00082	FPO PEF SO2 Emissions Trading Process	[redacted]
MKT-FPOF-00083	FPO PEF Emissions Deal Ticket Process	[redacted]
MKT-FPOF-00084	FPO PEF Seasonal and Annual NOx Emissions Trading Process	[redacted]
MKT-FPOX-00045	FPO Long-Term Firm Transportation Capacity Process	[redacted]
MKT-FPOX-00055	FPO Oil Procurement Procedure for Off-Premise Transactions	[redacted]
MKT-FPOX-00061	FPO Trader Authorization Removal Procedure	[redacted]
MKT-FPOX-00032	FPO Zai*Net Option Deal Entry and Exercise Process	[redacted]
MKT-RCOD-00017	RCO Financial Electricity Trading Deal Execution and Capture Procedures	[redacted]
MKT-RCOD-00029	RCO Forward Sale Procedure for Excess Generation	[redacted]
EMG-PGNF-00002	Fuel Oil Emergency Procedure - PEF	[redacted]
ERM-FPOF-00004	Fuels and Power Optimization Florida Credit Line Violation	[redacted]
ERM-FPOF-00007	Fuels and Power Optimization Florida Credit reporting procedure	[redacted]

Note: These policies and procedures are as of July 1, 2009