Joint Applicants' Response To The Commission Staff's Initial Data Requests Volumes 10 - 28

Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-010

REQUEST:

Refer to page 8, lines 19-21 of the Direct Testimony of James E. Rogers. The testimony indicates the Duke Energy's 2010 annual report is attached as Exhibit A to the application, however, Exhibit A is identified as Duke Energy's 2009 annual report.

a. Explain whether Joint Applicants intended to include Duke Energy's 2010 annual report as Exhibit A but inadvertently included the 2009 report, or whether the testimony intended to reference Duke Energy's 2009 annual report.

b. Explain whether Duke Energy's 2010 annual report is now available. If yes, provide the reports. If no, state when the 2010 report will be available.

RESPONSE:

a. The Company inadvertently included the 2009 annual report instead of the 2010 annual report.

b. See Attachment Staff DR-01-010 for 2010 Annual Report.

PERSON RESPONSIBLE: James E. Rogers

2010 ANNUAL REPORT
AND FORM 10-K

Duke Energy

DELIVERING TODAY. INVESTING FOR OUR FUTURE.

DUKE ENERGY CORPORATION

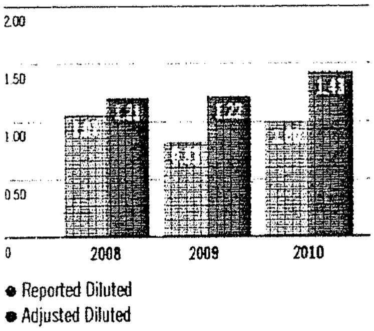
FINANCIAL HIGHLIGHTS[a]

(In millions, except per-share amounts and ratios)	2010	2009	2008
Operating Results			
Total operating revenues	**$14,272**	$12,731	S13,207
Net income	**$ 1,323**	$ 1,085	$ 1,358
Net income attributable to Duke Energy Corporation	**$ 1,320**	$ 1,075	$ 1,362
Ratio of Earnings to Fixed Charges	**3.0**	3.0	3.4
Common Stock Data			
Shares of common stock outstanding			
Year-end	**1,329**	1,309	1,272
Weighted average — basic	**1,318**	1,293	1,265
Weighted average — diluted	**1,319**	1,294	1,267
Reported diluted earnings per share	**$ 1.00**	$ 0.83	$ 1.07
Adjusted diluted earnings per share	**$ 1.43**	$ 1.22	$ 1.21
Dividends per share	**$ 0.97**	$ 0.94	$ 0.90
Balance Sheet Data			
Total assets	**$59,090**	$57,040	$53,077
Long-term debt including capital leases and variable interest entities, less current maturities	**$17,935**	$16,113	$13,250
Total Duke Energy Corporation shareholders' equity	**$22,522**	$21,750	$20,988

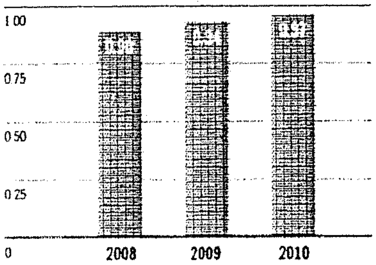
[a] Significant transactions reflected in the results above include the 2010 and 2009 impairments of goodwill and other assets (see Note 12 to the Consolidated Financial Statements, "Goodwill, Intangible Assets and Impairments").

See Notes to Consolidated Financial Statements in Duke Energy's 2010 Form 10-K.

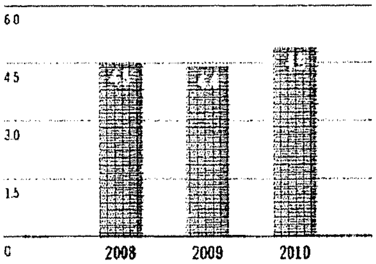
EARNINGS PER SHARE
(in dollars)



DIVIDENDS PER SHARE
(in dollars)



CAPITAL AND INVESTMENT EXPENDITURES
(dollars in billions)



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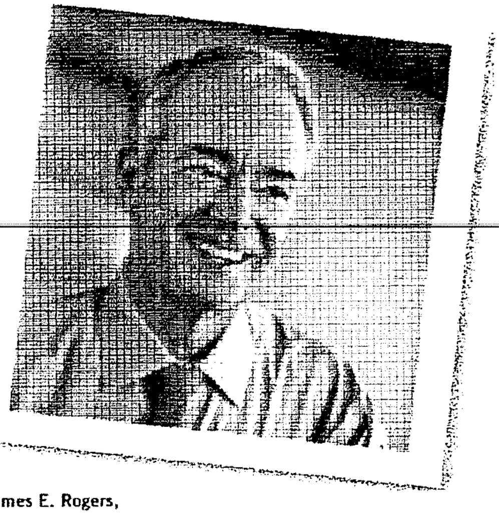
PROFILE

Headquartered in Charlotte, N.C., Duke Energy Corporation is one of the largest electric power holding companies in the United States. A Fortune 500 company, Duke Energy is listed on the New York Stock Exchange under the symbol DUK. More information about Duke Energy can be found at: www.duke-energy.com.

CHAIRMAN'S LETTER TO STAKEHOLDERS



James E. Rogers,
Chairman, President and Chief Executive Officer

Dear fellow customers, investors, employees and all others who have a vested interest in our success — including our partners, suppliers, policymakers, regulators and communities:

In a changing world, our mission is constant: Produce and deliver affordable, reliable and clean energy that benefits our customers, investors, employees and communities. To succeed in this mission, we relentlessly pursue productivity gains in all areas of our business — especially in the production, delivery and use of electricity. We must deliver results today, while investing for our future.

Duke Energy demonstrated this drive with our 2010 results. Just as importantly, we are creating a future that strengthens our ability to be more productive, more efficient and more opportunistic.

2

CREATING THE LEADING U.S. UTILITY

On January 10, 2011, Duke Energy and Progress Energy announced an agreement to combine their companies. Subject to shareholder and regulatory approval, this merger will create the nation's largest utility, with more than 7 million customers in six service territories. It is targeted to close by the end of 2011.

EXPECTED CUSTOMER BENEFITS:

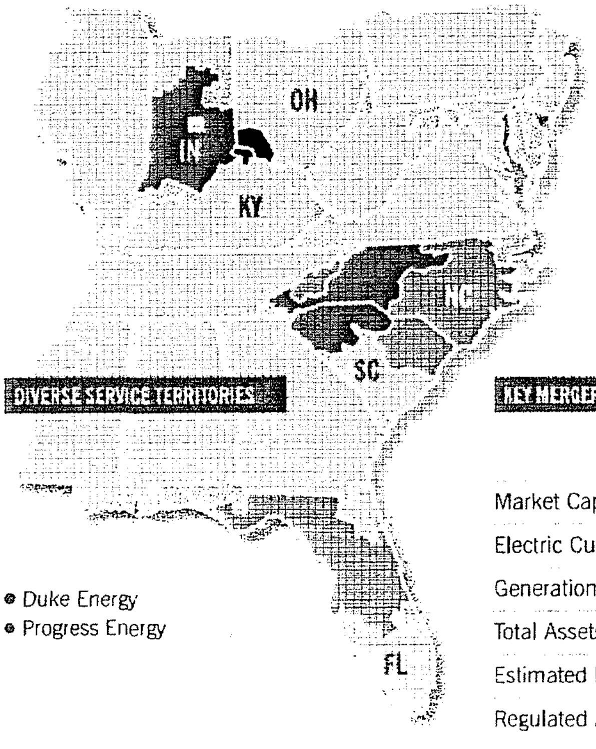
- Fuel savings and joint dispatch efficiencies for customers in the Carolinas
- Improved operating efficiencies, over time, for all regulated customers

EXPECTED INVESTOR BENEFITS:

- Earnings accretion in the first year of the merger[1]
- Strong credit ratings, balance sheet, cash flow, and dividend
- Long-term earnings growth target of 4 to 6 percent[1]

EXPECTED EMPLOYEE BENEFITS:

- Expanded career growth opportunities



DIVERSE SERVICE TERRITORIES

● Duke Energy
● Progress Energy

Duke Energy + Progress Energy

KEY MERGER STATISTICS

	Duke Energy	Progress Energy	Combined	Rank
Market Cap. (billions)	$23.7	$12.8	$36.5	#1
Electric Customers (millions)	4.0	3.1	7.1	#1
Generation Capacity (gigawatts)	35.4[2]	21.8[2]	57.2[2]	#1
Total Assets (billions)	$59	$33	$92[3]	#1
Estimated Rate Base (billions)	$22	$17	$39	#1
Regulated Adjusted EBIT Mix[4]	77%	100%	85%	N/A

For more, visit www.duke-energy.com/progress-energy-merger

Notes: All data as of 12/31/2010

[1] Based on adjusted diluted earnings per share.

[2] Excludes purchased power. Duke Energy and combined amounts exclude approximately 4 gigawatts (GW) of Duke Energy International assets.

[3] Total assets are a summation of the two stand-alone companies and do not include any pro-forma purchase accounting adjustments from this transaction.

[4] Earnings before interest and taxes (EBIT), excludes Duke Energy operations labeled as "Other," and Progress Energy operations labeled as "Corporate and Other Businesses."

DELIVERING RESULTS TODAY: A FINANCIAL REPORT CARD

Duke Energy delivered exceptional 2010 results, both financially and operationally

During 2010, we met our financial commitments as we grew earnings, increased the quarterly dividend, and maintained the strength of our balance sheet Extreme weather boosted sales and earnings during 2010 We ended the year with adjusted diluted earnings per share of $1.43, above our original adjusted diluted earnings guidance range of $1 25 to $1.30

The exceptional performance of our fleet and our employees' dedication to delivering high-quality customer service allowed us to capture the value of increased weather-related sales. The company is positioned to achieve a long-term adjusted diluted earnings growth rate of 4 to 6 percent[1]

In 2010, we increased our quarterly cash dividend to shareholders from $0 24 per share to $0.245 per share. We are committed to growing the dividend and have targeted a long-term dividend payout ratio of 65 to 70 percent, based on adjusted diluted earnings per share

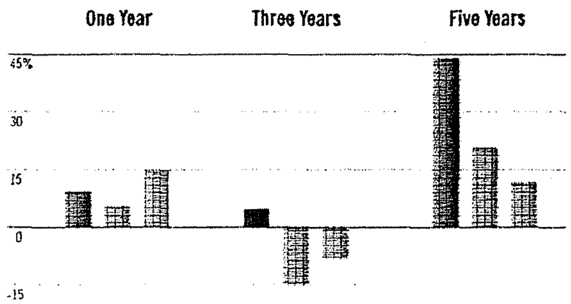
In 2010, we continued to focus on maintaining the strength of our balance sheet We are taking advantage of historically low interest rates to issue debt to finance our modernization programs Over the past two years, we have issued just over $5 billion of fixed-rate debt at an average interest rate of 4 8 percent These low interest rates will help us mitigate customer rate impacts

Our strong investment-grade credit ratings have stable outlooks with both S&P and Moody's We had total available liquidity of approximately $3.4 billion at year-end.

Our shareholders enjoyed a total return (including dividends and the change in stock price) of 9.5 percent in 2010, outperforming the Philadelphia Utility Index, which returned 5.7 percent. Longer term, too, Duke Energy has outperformed the utility index, with cumulative three-year returns of 4.7 percent and five-year returns of 44.2 percent, compared to -15.4 percent and 20.9 percent, respectively, for the utility index.

TOTAL SHAREHOLDER RETURN

(for periods ending Dec. 31, 2010)



- ● Duke Energy Corporation
- ● Philadelphia Stock Exchange Utility Sector Index
- ● S&P 500 Index

INTENDED MERGER WITH PROGRESS ENERGY

In January 2011, we announced our intended merger with Progress Energy *(See Creating the Leading U.S Utility, Page 2.)* Headquartered in Raleigh, N C., Progress Energy has regulated utility operations in the Carolinas and Florida, with more than 3 million customers Our combined company will be unsurpassed in size and scale, serving more than 7 million customers with around 57,000 megawatts (MW) of domestic nuclear, coal, hydro and alternative energy generation. We are targeting closing the transaction by the end of 2011, subject to shareholder and regulatory approval

This strategic transaction involves more than just becoming the largest utility The size and scale of the combined company gives us the ability to achieve efficiencies and effectively manage the transformation occurring in our industry Additionally, we add an outstanding group of teammates to help navigate the combined company into the future.

Over time, we believe that our customers will benefit from productivity gains and that our employees will benefit from increased opportunities We expect shareholders to realize earnings accretion, based on adjusted diluted earnings per share, in the first year after closing.

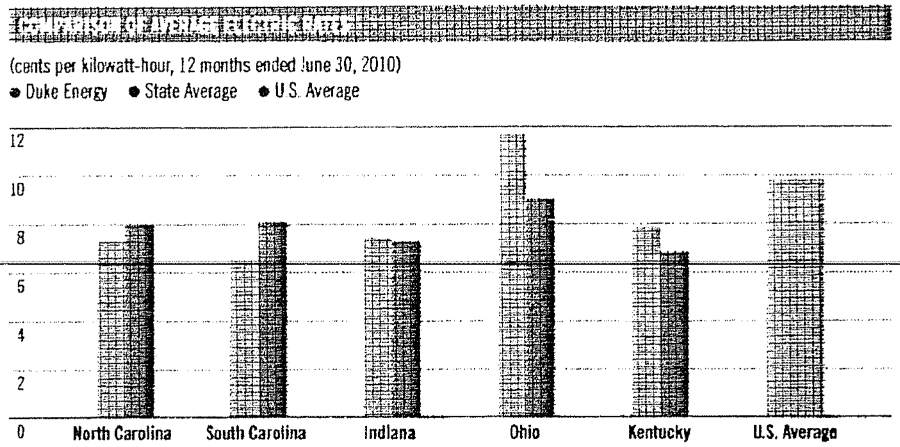
We are very excited about this transaction. Our combined strength will exceed the strength we have as separate companies It will allow us to provide benefits to all our

[1] From a base of 2009 adjusted diluted earnings per share of $1.22

OPERATIONAL PERFORMANCE SUPPORTS OUR AFFORDABLE, RELIABLE, CLEAN MISSION

Affordable

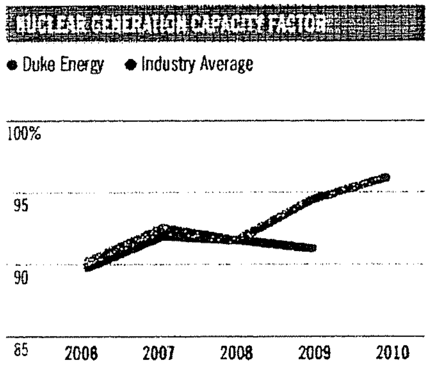
Our customers expect us to provide them with affordable energy both today and in the future. Given the long lead times needed to build new generation, we carefully make investments to satisfy future demand. Our diverse fuel portfolio reduces commodity price volatility. Currently, Duke Energy offers some of the most competitive electric rates in the United States.



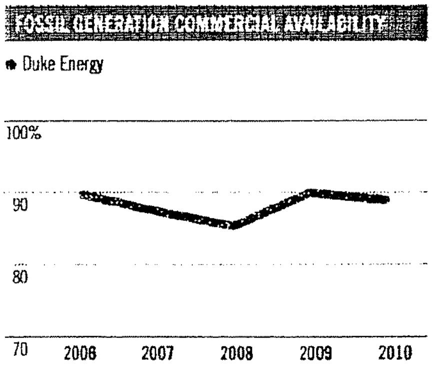
Source: Edison Electric Institute Typical Bills and Average Rates Report, June 30, 2010

Reliable

Our customers expect us to deliver reliable energy. Today's investments to modernize our grid will increase the reliable delivery of energy in the future. The new power plants we are building today will replace older, less efficient ones. Our high operational performance helps ensure that our services are available when needed. In 2010, our nuclear fleet set an all-time company capacity record of approximately 95.9 percent.

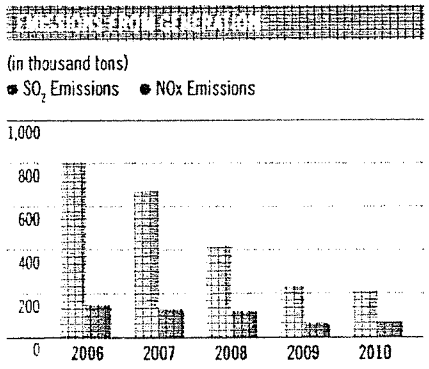


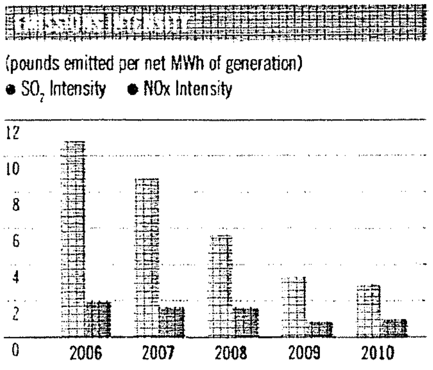
Source: Industry average obtained from Nuclear Energy Institute (NEI)



Clean

Our customers want cleaner energy. Over the last decade, we have spent over $5 billion to significantly reduce sulfur dioxide (SO_2) and nitrogen oxide (NOx) emissions from our coal fleet. The modern generating plants we are currently building will generate cleaner energy and further reduce emissions. In addition, our investments in wind and solar will help us to promote cleaner energy.





Note: SO_2 and NOx reported from U.S. electric generation based on ownership share of generating assets stakeholders — our customers, investors, employees, and the communities in which we work and live Integration planning has begun so that we can ensure a smooth transition and increase productivity gains in all aspects of our business

At the same time, we will continue to focus on execution of our 2011 financial and operational objectives as a stand-alone company.

RELIABLE PERFORMANCE

Our fleet and grid performed admirably in 2010. Confronted with record-breaking temperatures — both winter and summer — Duke's operating teams met the challenge ~~of high load requirements. For example, the regulated fossil generation fleet had commercial~~ availability of approximately 88.7 percent The company's nonregulated Midwest generation fleet also met customers' needs while establishing record highs for total generation.

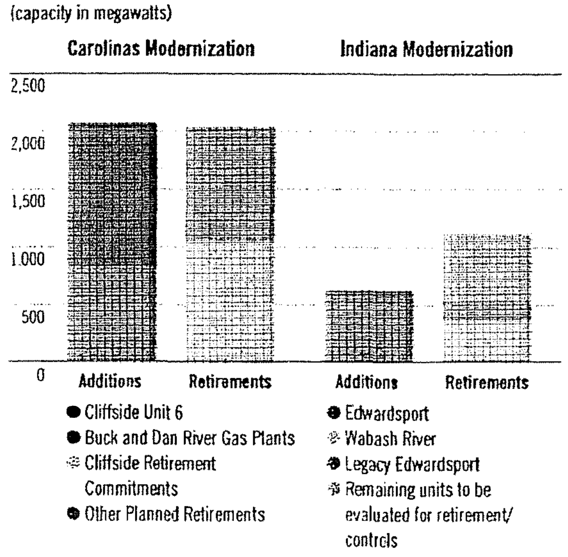
Industry data show that our nuclear fleet is among the most reliable in the nation at delivering low-cost baseload power. During 2010, our nuclear capacity factor was approximately 95.9 percent, which eclipsed the company's previous annual record of approximately 95.2 percent in 2002.

Additionally, in 2010 Duke Energy's Oconee Nuclear Station became the nation's first nuclear plant to receive Nuclear Regulatory Commission approval to transition from an analog to a digital plant safety system. Upgrading these systems will help prevent unnecessary shutdowns and result in more reliable and simplified operations. The digital upgrade for all three Oconee units will be complete by 2013.

Strong productivity, operational performance and efficiency are good for our customers and communities. Investors also benefit when we reduce costs and increase profitability.

Duke Energy does business in a way that is good for people, the planet and profits. Our strategy was affirmed in 2010, as Duke Energy earned a place on the Dow Jones Sustainability World Index. We were one of only 15 electric utilities around the globe to be named to this elite index Duke Energy also earned a place on the Dow Jones Sustainability North America Index for the fifth year in a row. You can read about our sustainability plan on Page 6 of this report Our 2010|2011 Sustainability Report, available at www.duke-energy.com, has more details.

FLEET MODERNIZATION THROUGH 2020



INVESTING FOR OUR FUTURE: MODERNIZATION STRATEGY

Duke Energy is making decisions today for future energy investments These decisions are critical to our mission to deliver affordable, reliable and clean energy Power plants take years to permit and construct and require enormous amounts of capital to be invested over several years. We recover these investments through customer rates over the 30- to 40-year operating lives of our baseload power plants.

Our customers enjoy reliable power today because of investment decisions made many decades ago. In the Carolinas, for example, Duke Energy has not built any new baseload generating plants since 1986. Over the past decade, we have invested roughly $5 billion to significantly reduce sulfur dioxide and nitrogen oxide emissions And, we anticipate more stringent environmental regulations to come As a

DUKE ENERGY SUSTAINABILITY PLAN AT A GLANCE

This sustainability plan reflects Duke Energy's commitment to operate in a way that is good for people, the planet and profits. It expands on the company's business strategy and values.

PRIORITY	WHY IT MATTERS	GOALS
INNOVATIVE PRODUCTS AND SERVICES Provide innovative products and services in a carbon-constrained, competitive world	Our customers want products and services that are affordable yet responsive to environmental concerns	■ **ENERGY EFFICIENCY:** Reduce customer energy consumption by 2,500 gigawatt-hours (GWh) and peak demand by 2,100 MW by 2013 ■ **RENEWABLES:** Scale up to 3,000 MW of wind, solar and biomass by 2020 ■ **AFFORDABLE AND RELIABLE ENERGY:** Maintain rates lower than the national average and the high reliability of our generation and distribution systems
ENVIRONMENTAL FOOTPRINT Reduce our environmental footprint	As an energy company, we have a large impact on the environment and depend on natural resources for our fuel	■ **CARBON EMISSIONS:** Reduce or offset the carbon dioxide (CO_2) emissions from our U.S. generation fleet 17 percent from 2005 by 2020 (i.e., go from 105 million tons in 2005 to 87 million tons in 2020) ■ **CARBON INTENSITY:** Reduce the carbon intensity of our total generation fleet from 0.63 tons of CO_2 per megawatt-hour (MWh) in 2005 to 0.50 tons of CO_2 per MWh by 2020 ■ **WASTE:** Increase the percentage of solid waste that is recycled from 52 percent in 2008 to 62 percent by 2012
QUALITY WORKFORCE Attract, develop and retain a diverse, high-quality workforce	Energy companies will be differentiated by the quality, creativity and customer focus of their employees	■ **SAFETY:** Achieve zero work-related fatalities and top-decile safety performance in employee total incident case rate (TICR) by 2012 ■ **EMPLOYEE ENGAGEMENT:** Maintain management and employee engagement at 75 percent and 64 percent, respectively, or higher, as measured by favorable scores on survey questions
STRONG COMMUNITIES Help build strong communities	Our success is linked to the health and prosperity of the communities we serve	■ **PHILANTHROPY:** Develop the baseline number of individuals positively impacted by our support of key community partners during 2010
GOVERNANCE AND TRANSPARENCY Be profitable and demonstrate strong governance and transparency	Creating shareholder value and earning the trust and confidence of our many stakeholders keeps us in business	■ **SHAREHOLDER RETURN:** Outperform our peers in total shareholder return, annually and over a three-year period, as measured by the Philadelphia Utility Index

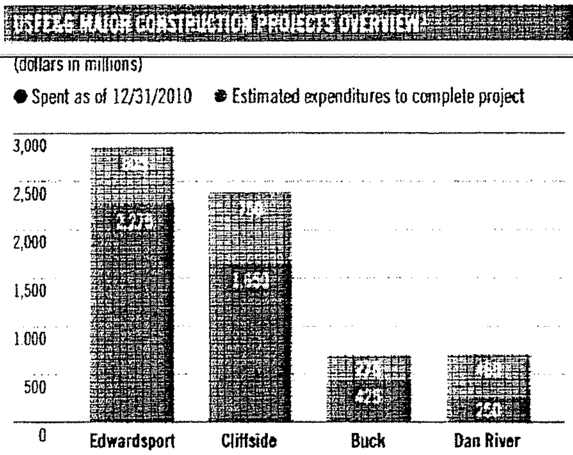
To learn more, see our 2010|2011 Sustainability Report available on www.duke-energy.com.

result, we expect to retire and replace our entire fleet, excluding hydro units, by 2050. Modernization isn't a "nice to have" strategy; it's a "must have."

In 2010, we made significant progress in constructing four advanced, highly productive, cleaner energy generation plants, the centerpiece of our modernization strategy:

- **EDWARDSPORT POWER PLANT IN INDIANA.** When operational in 2012, this 618-megawatt, state-of-the-art Integrated Gasification Combined Cycle (IGCC) facility will replace the site's existing coal units, in service since 1944 and 1951. It will be the largest power plant in the world to use advanced technology to gasify coal, strip out pollutants, and then use this gas to produce power. Indiana coal will help power homes, businesses, schools and factories ~~and reduce emissions to the environment. Duke Energy~~ has received approval for local, state and federal tax incentives totaling more than $460 million for the project, which will help mitigate customer rate increases over time. Construction remained on schedule in 2010, but the scale and complexity of the project have pushed costs higher than the previous estimate of $2.35 billion. We have a pending request before the Indiana Utility Regulatory Commission to approve the estimated cost increase from $2.35 billion to $2.88 billion. A decision is expected in 2011.
- **CLIFFSIDE POWER PLANT IN NORTH CAROLINA.** This advanced coal-fired 825-megawatt facility is expected to go on line in 2012 at an estimated cost of $2.4 billion. Once it is operational, we will start to retire 1,000 megawatts of generation at older, less efficient plants — some built in the 1920s. At year-end, the project was on schedule and on budget and had been awarded $125 million in federal clean-coal tax credits.
- **BUCK POWER PLANT IN NORTH CAROLINA.** Construction of our 620-megawatt combined cycle gas-fired Buck plant is estimated to cost $700 million, with an expected in-service date in late 2011. It ended the year on schedule and on budget. By 2015, we plan to retire the construction site's four existing coal units, all built between 1941 and 1953.
- **DAN RIVER POWER PLANT IN NORTH CAROLINA.** In October 2010, we broke ground on our second 620-megawatt combined cycle natural gas-fired plant — the Dan River facility. The $710 million plant is expected to go on line in late 2012, and we plan to retire the site's three existing coal units that were built between 1949 and 1955.

USFE&G MAJOR CONSTRUCTION PROJECTS OVERVIEW[1]



Edwardsport IGCC Plant Indiana	■ 618 MW IGCC facility ■ Expected in service in 2012 ■ Project is 80% complete[2]
Cliffside Advanced Clean Coal Plant North Carolina	■ 825 MW advanced clean-coal unit ■ Expected in service in 2012 ■ Project is 80% complete[2]
Buck Combined Cycle Plant North Carolina	■ 620 MW combined-cycle gas-fired plant ■ Expected in service in 2011 ■ Project is 75% complete[2]
Dan River Combined Cycle Plant North Carolina	■ 620 MW combined-cycle gas-fired plant ■ Expected in service in 2012 ■ Project is in early stages of construction[2]

[1] Project costs include direct capital and Allowance for Funds Used During Construction (AFUDC)
[2] Approximate as of December 31, 2010

Additionally, we are investing up to $1 billion in the long-term build-out of a digital two-way communications network along the power grid. Once complete, customers will be able to better manage their energy usage and save money. All these modernization projects are creating jobs in our communities.

RECOVERING FLEET MODERNIZATION COSTS

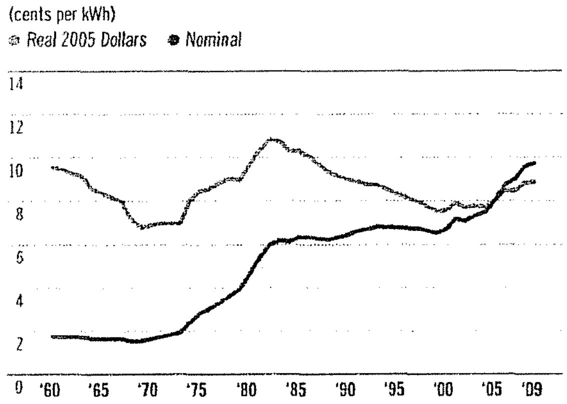
In 2011, we expect to ask regulators in up to three of our five jurisdictions to approve customer rate increases so we can recover investments associated with environmental compliance and new plant construction You might ask. "How does a rate increase support the affordable part of our mission, especially in these tough economic times?"

Here's some perspective: Consider the graph on this page. It shows that the real cost of electricity, averaged and adjusted for inflation, has declined over the past 50 years In fact, Duke Energy currently offers some of the most competitive electric rates in the United States Our rates in the Carolinas, in particular, benefit from the low-cost, baseload nuclear power that serves our North Carolina and South Carolina customers.

In all our jurisdictions, we want to achieve pricing structures that balance customer and shareholder needs To maintain that balance and keep rates low for customers, we must obtain timely recovery of our investments and earn a fair return

We will continue to control costs and focus on productivity To that end, we have held nonrecoverable operation and maintenance costs essentially flat for the past four years.

AVERAGE ANNUAL ELECTRICITY PRICES (ALL SECTORS), 1960 — 2009



Data Source: Energy Information Administration

A NEW PATH IN OHIO

Achieving a balance between our customers' need for affordable, reliable and clean power and our investors' need for competitive and fair returns has grown difficult in Ohio By law, Ohio customers can switch generation providers, allowing them to capture the benefit of lower market prices. However, our generation must stand ready to serve all customers in our service territory, including those who have switched Therefore, we have not been able to adequately recover our costs and earn a competitive and fair return on our investments.

This imbalance was highlighted in 2009, when market prices for energy plummeted, along with the economy and industrial demand As a result, our electric generation rates have exceeded the prevailing market prices By the end of 2010, approximately 65 percent of customers receiving Duke Energy Ohio's negotiated electric rates had switched to other retail suppliers who offered generation at lower prices.

In the current Ohio regulatory framework, provisions in place do not allow utilities to adequately recover their investments, whether in existing assets, new power plants to meet future customer demand, or in improvements to comply with more stringent environmental rules. This high-risk and low-reward environment makes it difficult to maintain a healthy utility and justify future power plant investments in the state. Energy providers need assurance that they can earn fair returns on existing and future investments to maintain the current system and ensure the reliable delivery of power A different regulatory approach could help create much-needed jobs and begin to reposition the state for future economic growth.

In the meantime, at the end of 2010, we filed a new electric standard service offer, or Market Rate Offer, with the Public Utilities Commission of Ohio, requesting a plan to set market-based rates for customers of Duke Energy Ohio This filing was a significant departure for Duke Energy Ohio, however, we believed it was the best option available to us under the current rules In late February, the Public Utilities Commission of Ohio failed to approve our filing. In light of this ruling, we are currently exploring our options

DUKE ENERGY'S COMMERCIAL BUSINESSES

Our Commercial Power and International business segments contributed around $900 million or approximately 23 percent of our total adjusted segment EBIT (earnings before interest and taxes) in 2010. We executed on our strategies in each of our Commercial Businesses:

- **INTERNATIONAL:** Our international business, consisting mostly of hydroelectric generation plants in Brazil and a combination of hydro and fossil generation in Peru and other Latin American countries, has provided consistent earnings growth. Favorable pricing and exchange rates helped drive an approximate 20 percent increase in adjusted segment earnings in 2010.
- **MIDWEST GENERATION:** Our Ohio generation teams achieved record safety and production results in 2010. Financial results were boosted by Duke Energy Retail, our competitive retail business in Ohio, which grew from a cold start in spring 2009 to a company with 17 employees and more than 100,000 customers. Duke Energy Retail serves approximately 60 percent of the switched load from Duke Energy Ohio as well as customers from outside our Ohio franchise territory. This is an outstanding achievement and demonstrates our team's hard work and diligent execution to retain margin in the competitive Ohio environment.
- **RENEWABLE ENERGY:** Duke Energy now has more than 1,000 MW of commercial renewable energy on line, with two major projects — the Top of the World Windpower Project in Wyoming and the Kit Carson Windpower Project in Colorado — completed and in service at the end of 2010. Long-term power purchase agreements support both projects. Our commercial solar business also grew in 2010. We added the Blue Wing Solar Project in Texas, a 14-MW installation, complete with a 30-year power purchase agreement.

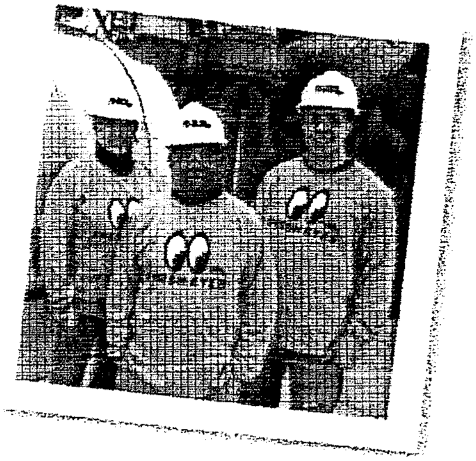
A CULTURE OF SAFETY

A culture of "safety first" is foremost in everything we do as a company. A safe company helps drive productivity and efficiency.

In 2010, Duke Energy achieved its best ever employee safety performance, measured by our total incident case rate, which improved 10 percent from 2009. Specifically, our regulated fossil/hydro fleet reduced its safety incidents in 2010 by approximately 25 percent; our Midwest generation fleet and our International operations reduced their safety incidents, by half and by 75 percent, respectively. Each of these fleets set all-time historic safety records for employees.

The 3R program in our U.S. fossil/hydro generation plants is one example of how we continually strengthen our safety culture. The Rs stand for *Reduce* risk, *Remove* exposures to hazards and *Reinforce* safe behavior. Introduced in 2010, the program encourages and rewards employees and contractors for reporting potential hazards. Anyone at a plant can record problems they observe and recommend corrective action or initiate a work order to address the issue. This simple checklist has improved safety across our plants.

Another example is the "Fresh Eyes" concept at our Ohio plants. Two workers started the program with a common sense premise: It's easier to see safety violations at other plants than it is to see problems in the plants where we work. Simple and cost-effective, this program gives employees the option of visiting plants that are not their own to inspect for potential safety issues. They offer a "fresh eyes" perspective. This program drove more than 200 safety improvements in 2010, and inspired many of our partners at jointly-owned facilities to embrace the program as well.



Duke Energy's Gina Whittle, Ron Gill and Donald Dickinson (from left to right) taking a "fresh eyes" look at practices in our W.M. Zimmer coal station in Ohio.

LEARNING FROM CHALLENGES

While we are proud of our employees' stellar safety performance, we must improve contractor safety Several contractors working for Duke Energy lost their lives during 2010, and this is unacceptable to us. We've formed a leadership task force that is implementing new procedures to safeguard our contractors on the job To underscore the importance of a fatality-free workplace for both employees and contractors, rigorous safety measures are a part of our annual employee incentive compensation program.

Just as we are committed to ensuring the safety of employees and contractors, we are also committed to earning the trust of our communities. In 2010, that trust was tested in Indiana with controversy over the hiring of a regulatory attorney. When the issue first emerged, we immediately launched an internal investigation and have cooperated fully with external investigations As we learned more, we took swift, decisive and appropriate policy and personnel actions. While the Indiana Utility Regulatory Commission's investigation found no improprieties in rulings related to our Edwardsport project under construction in that state, we recognize the need to rebuild our stakeholders' trust.

INVESTING IN TECHNOLOGY

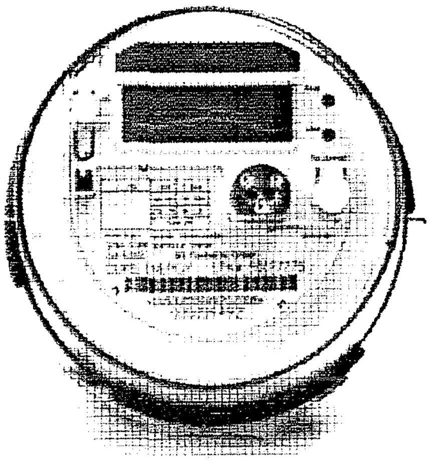
We face a different kind of challenge when we lay the groundwork for a future focused on energy efficiency and environmental stewardship. The past 100 years was about building the infrastructure to make electricity accessible to everyone. Today, our mission is to deliver affordable, reliable energy in a way that's increasingly clean. In response, we are investing in digital energy technologies that have the potential to transform our industry — the way we generate energy, the way we deliver it and the way our customers use it.

I've often said that Duke Energy is a technology company disguised as a utility New nuclear, advanced coal, and renewable energy resources, all seamlessly integrated into a digital grid, will create the foundation for a future that continues to bring reliable, affordable and cleaner energy to all our customers.

Grid Modernization

Our power grid delivers electricity over more than 170,000 miles of lines and scores of substations and related equipment. It uses technology that has changed little since the days of Thomas Edison. In 2009, we began a $1 billion upgrade to move from an analog system to an advanced digital grid Sometimes called "smart grid," today's modernization efforts bring 21st century technology to the 20th century power grid.

We began by installing two-way communication devices on parts of our distribution system. These devices can help identify outages, enabling us to respond more quickly to resolve problems. They can also help us monitor potential irregularities and prevent future outages, improving the grid's reliability. Digital meters at our customers' homes and businesses permit remote meter reading and decreased on-site visits, resulting in greater efficiencies.



A digital meter is just one part of a smart-grid system. With digital meters and energy management programs, customers benefit from more efficient operations as well as more information to help them manage their energy use and costs.

The technology also makes possible the integration of appliances and other in-home devices, so customers can — if they choose — use the tools and information we provide to reduce their energy usage and control costs.

As part of the upgrade, we have installed state-of-the-art digital meters at some customer locations. The Public Utilities Commission of Ohio approved our digital upgrade plans in 2008. Since then, we have installed approximately 140,000 electric meters, 100,000 gas meters and 22,000 communication nodes in Ohio.

With this technology in place, we have begun residential energy management pilot programs in Ohio and in a small area of Charlotte, N.C. Participating customers have realized savings in their monthly energy bills.

Customer Service Improvements

In addition to improvements in our power delivery system, the digital grid will help customers become more involved in managing their energy use. We'll be able to give them the information, choices and control to make wiser energy decisions, conserve energy and save money, in a way that works best for them.

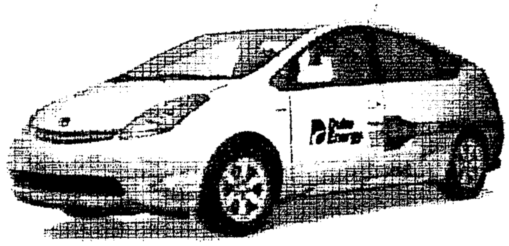
The digital grid technology investments we are making in Ohio, and eventually in the other states we serve, will create a customer experience similar to other technological revolutions, like the Internet and the smartphone. Of course, taking action is optional — and we feel strongly that customers should be the ones to make that choice.

We are not waiting to build out the smart grid, however, to create new opportunities for customers to connect with us. Today, in addition to person-to-person services, customers can communicate with us via social media and online tools, so that we can respond more quickly to their suggestions and concerns. Our storm feeds on Twitter – @DukeEnergyStorm, and Facebook http://www.facebook.com/DukeEnergyStorm, are great examples of how we are reaching customers with information they want and need.

The efforts of our employees to offer prompt and effective customer service were recognized in 2010. In a customer satisfaction survey for electric utilities, Duke Energy was ranked third in the nation by the Key Accounts National Benchmark Survey. Additionally, in the J.D. Power and Associates 2010 Electric Utility Residential Customer Satisfaction Study,SM Duke Energy Carolinas ranked highest among large utility companies in the South region, and our Midwest operations moved up three spots to sixth place among 17 providers. We are proud of our employees whose actions embody our long-standing culture of safety and service.

DID YOU KNOW?

ELECTRIC VEHICLES



1 Filling up a plug-in electric vehicle costs 2 to 3 cents per mile, versus an average of 15 cents per mile for gasoline per gallon.

2 The United States now imports more than half of its oil, at a cost of billions of dollars per year. The use of plug-in electric vehicles can dramatically improve our energy independence.

3 Even in regions where most electricity is produced by coal, electric vehicles still reduce greenhouse gases by 25 to 30 percent over conventional vehicles.

SOURCE: GoElectricDrive.com

Electric Vehicles

We are working with the manufacturers of vehicles, batteries, and charging stations to expand the adoption of plug-in electric vehicles. In 2010, the Electric Drive Transportation Association, of which Duke Energy is a board member, launched GoElectricDrive.com — an online resource providing a wealth of plug-in electric vehicle information. The site includes information about environmental benefits, charging infrastructure, purchase incentives, and a virtual showroom A "Plug-in and Save" calculator shows you the financial and carbon footprint savings from driving a plug-in electric vehicle

We're also helping to shape state and federal policies and standards. This technology is good for the planet and good for our profits, helping drive electricity sales.

OUTLOOK FOR 2011 AND BEYOND

Throughout 2011, we will be planning for the integration of Duke Energy and Progress Energy and filing for merger approvals with various federal and state regulators and shareholders of both companies. We will leverage our existing systems and evaluate best practices to ensure an efficient integration of the two merged companies. We have named the top-tier management team for the combined company and have integration planning teams in place These early decisions were designed to accelerate the integration planning process. We are targeting to close the transaction by the end of 2011

Our 2011 outlook assumes a slow economic recovery, continued progress on our modernization efforts, and stabilization of the competitive environment in Ohio We expect adjusted diluted earnings per share between $1.35 to $1 40. In addition, you can expect:

- An increase in the quarterly dividend of approximately 2 percent during 2011, subject to board of directors' approval
- Requests for increases in customer rates to recover expenses incurred in constructing and upgrading power plants
- Continued efforts across our jurisdictions to gain approval of mechanisms that narrow the gap between allowed and earned returns
- Increased safety performance and improved reliability due to plant and equipment investments and the continued rollout of digital technology, and
- Continued support for communities through leadership, investment, economic development and service projects

OUR CONSTANT DRIVE FOR PRODUCTIVITY GAINS

The roughly 12 million people who live in our service territories and those who will follow depend on the decisions we make today to build the right infrastructure to power our world for the future.

Our persistent push for productivity improvements in every aspect of our business enables us to better meet the needs of all our stakeholders. This allows us to achieve our mission of delivering affordable, reliable and clean energy today and in the years to come. Our pursuit of productivity gains is at the core of all that we do. It is making a better Duke Energy for our customers, investors, employees, and communities.

We will remain sharply focused on these objectives and continue to deliver results today, while investing for our future.

James E. Rogers

James E Rogers
Chairman, President and Chief Executive Officer
March 4, 2011

OUR PRIORITIES, PROGRESS, AND OUTLOOK

[illegible]	[illegible]	[illegible]
[illegible]		
Finalize merger with Progress Energy	■ Announced top-tier management team for combined company ■ Merger teams have begun initial integration planning	■ Plan to begin making state and federal regulatory filings in first quarter 2011 ■ Targeting close of merger transaction by end of 2011
Continue operational performance of fleet and grid	■ Achieved record capacity factor for nuclear fleet in 2010 ■ Achieved record generation levels for nonregulated Midwest generation in 2010	■ Continue focus on operational excellence
Aggressively manage capital and operating and maintenance costs	■ Maintained relatively flat adjusted net operating and maintenance costs[1] from 2007-2010	■ Modest increases to costs anticipated as major construction projects come on line in 2011 and 2012
Grow adjusted diluted EPS and the dividend	■ Realized adjusted diluted EPS growth of approximately 17 percent in 2010 ■ Increased quarterly dividend from $0.24 per share to $0.245 per share during 2010 ■ Delivered Total Shareholder Return of 9.5 percent during 2010	■ Targeting 2011 adjusted diluted EPS range of $1.35-$1.40 ■ Targeting a long-term dividend payout range of 65 to 70 percent of adjusted diluted EPS ■ Project a dividend increase in 2011 (subject to Board of Directors discretion and approval)
Maintain balance sheet strength	■ Credit ratings affirmed in January 2011 ■ Issued over $285 million of equity through internal plans during 2010	■ Maintain current credit ratings ■ Project no equity issuances through 2013 based on current business plan
REGULATED OPERATIONS		
Obtain constructive regulatory outcomes	■ No significant regulatory outcomes were reached during 2010	■ Plan to file rate cases in up to three of our regulated jurisdictions in 2011
Complete major construction projects on budget and on time	■ Major construction projects are on time and on budget, except for Edwardsport	■ Expect to bring Buck combined-cycle plant on line in 2011 ■ Work toward a constructive outcome with the Edwardsport cost increase proceedings
Advance legislative agenda to reduce regulatory lag	■ Planning for legislative agendas	■ Propose legislation to address regulatory lag and the timely recovery of investments, such as new nuclear
[illegible]		
Position Midwest generation business for the long term	■ Filed a Market Rate Offer (MRO) in November 2010, proposing generation rates for Ohio customers in 2012 and beyond; in February 2011, PUCO failed to approve our MRO filing; we are currently exploring options	■ Achieve a constructive outcome for generation pricing in Ohio
Strategically respond to customer switching pressures in Ohio	■ Duke Energy Retail has retained approximately 60 percent of Duke Energy Ohio's switched customers	■ Respond to additional customer switching pressures in Ohio through Duke Energy Retail
Strategically invest in the renewable energy and International businesses	■ Grew the renewable generation portfolio by over 250 megawatts during 2010	■ Continue to evaluate investment opportunities

[1] Net of deferrals, cost recovery riders and special items

BOARD OF DIRECTORS

William (Bill) Barnet III
Chairman, President and
Chief Executive Officer
The Barnet Company Inc. and
Barnet Development Corp.

Chair, Finance and Risk Management Committee

Member, Nuclear Oversight Committee

Director of Duke Energy or its predecessor companies since 2005

G. Alex Bernhardt Sr.
Chairman and
Chief Executive Officer
Bernhardt Furniture Company

Member, Audit Committee, Nuclear Oversight Committee

Director of Duke Energy or its predecessor companies since 1991

Michael G. Browning
Chairman and President
Browning Investments Inc.

Chair, Audit Committee

Member, Corporate Governance Committee, Finance and Risk Management Committee

Director of Duke Energy or its predecessor companies since 1990

Daniel R. (Dan) DiMicco
Chairman, President and
Chief Executive Officer
Nucor Corp.

Member, Compensation Committee, Corporate Governance Committee

Director of Duke Energy or its predecessor companies since 2007

John H. Forsgren
Retired Vice Chairman,
Executive Vice President and
Chief Financial Officer
Northeast Utilities

Member, Audit Committee, Compensation Committee

Director of Duke Energy or its predecessor companies since 2009

Ann Maynard Gray
Former Vice President, ABC Inc.
and former President, Diversified
Publishing Group of ABC Inc.

Lead Director

Chair, Corporate Governance Committee

Member, Compensation Committee, Finance and Risk Management Committee

Director of Duke Energy or its predecessor companies since 1994

James H. (Jim) Hance Jr.
Retired Vice Chairman and
Chief Financial Officer
Bank of America Corp.

Chair, Compensation Committee

Member, Finance and Risk Management Committee

Director of Duke Energy or its predecessor companies since 2005

E. James (Jim) Reinsch
Retired Senior Vice President
and Partner
Bechtel Group

Member, Finance and Risk Management Committee, Nuclear Oversight Committee

Director of Duke Energy or its predecessor companies since 2009

James T. (Jim) Rhodes
Retired Chairman, President
and Chief Executive Officer
Institute of Nuclear Power
Operations

Chair, Nuclear Oversight Committee

Member, Audit Committee

Director of Duke Energy or its predecessor companies since 2001

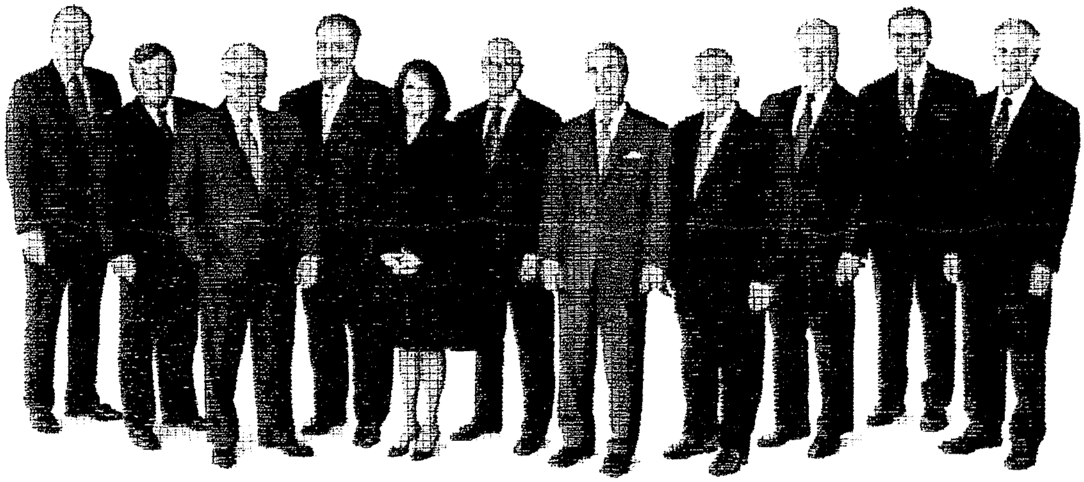
James E. (Jim) Rogers
Chairman, President and
Chief Executive Officer
Duke Energy Corp.

Director of Duke Energy or its predecessor companies since 1988

Philip R. (Phil) Sharp
President
Resources for the Future

Member, Audit Committee, Nuclear Oversight Committee

Director of Duke Energy since 2007 and its predecessor companies from 1995-2006



From left to right: Jim Hance Jr., Michael Browning, John Forsgren, Dan DiMicco, Ann Maynard Gray,
Jim Reinsch, Jim Rogers, Bill Barnet III, Jim Rhodes, Phil Sharp and Alex Bernhardt Sr.

EXECUTIVE MANAGEMENT

James E. (Jim) Rogers
Chairman, President and
Chief Executive Officer

Roberta B. Bowman
Senior Vice President and
Chief Sustainability Officer

Brett C. Carter
President — Duke Energy
North Carolina

Douglas F. (Doug) Esamann
President — Duke Energy
Indiana

Lynn J. Good
Group Executive and
Chief Financial Officer

Richard W. (Rick) Haviland
Senior Vice President —
Construction and Major Projects

Catherine E. Heigel
President — Duke Energy
South Carolina

Dhiaa M. Jamil
Group Executive,
Chief Generation Officer and
Chief Nuclear Officer

Julie S. Janson
President — Duke Energy Ohio
and Duke Energy Kentucky

Gianna M. Manes
Senior Vice President and
Chief Customer Officer

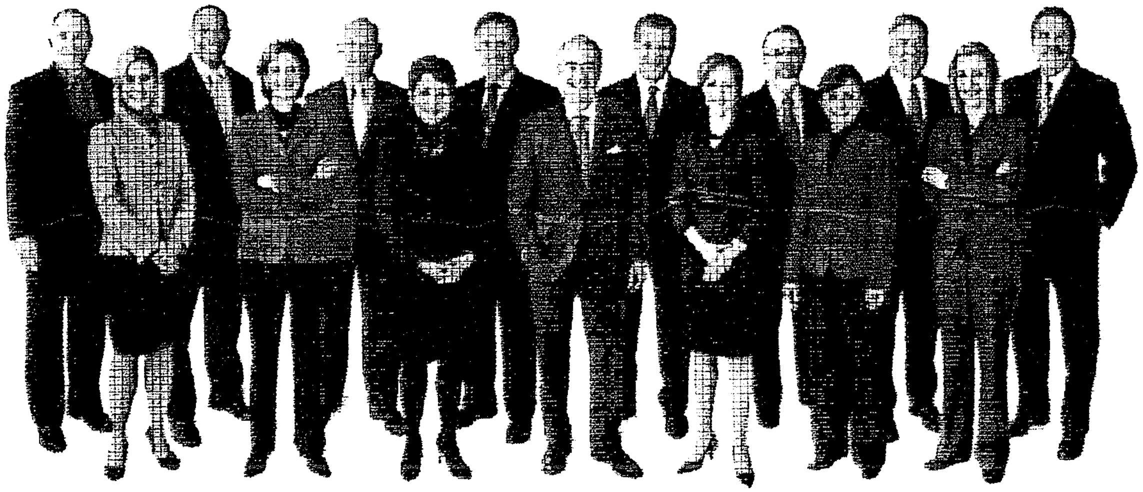
Marc E. Manly
Group Executive, Chief Legal
Officer and Corporate Secretary

David W. Mohler
Senior Vice President and
Chief Technology Officer

B. Keith Trent
Group Executive and
President — Commercial
Businesses

William F. (Bill) Tyndall
Senior Vice President —
Federal Government and
Regulatory Affairs

Jennifer L. Weber
Group Executive,
Human Resources and
Corporate Relations



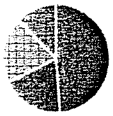
From left to right: Rick Haviland, Jennifer Weber, Brett Carter, Roberta Bowman, Marc Manly, Lynn Good, Keith Trent, Jim Rogers, Dhiaa Jamil, Catherine Heigel, David Mohler, Gianna Manes, Bill Tyndall, Julie Janson and Doug Esamann

DUKE ENERGY AT A GLANCE

BUSINESS SEGMENT | **OVERVIEW**

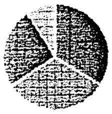
U.S. FRANCHISED ELECTRIC AND GAS

GENERATION DIVERSITY
(percent owned capacity)



▨ Coal	49%
▨ Nuclear	19%
▨ Natural Gas/Fuel Oil	20%
▨ Hydro	12%

CUSTOMER DIVERSITY
(in billed GWh sales)



▨ Residential	34%
▨ Commercial	32%
▨ Industrial	25%
▨ Wholesale/Other	9%

U.S. Franchised Electric and Gas (USFE&G) consists of Duke Energy's regulated generation, electric and gas transmission and distribution systems. USFE&G's generation portfolio is a balanced mix of energy resources having different operating characteristics and fuel sources designed to provide energy at the lowest possible cost.

Electric Operations

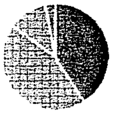
- Owns approximately 27,000 megawatts (MW) of generating capacity
- Service area covers about 50,000 square miles with an estimated population of 12 million
- Service to approximately 4 million residential, commercial and industrial customers
- Over 152,200 miles of distribution lines and a 20,900-mile transmission system

Gas Operations

- Regulated natural gas transmission and distribution services to approximately 500,000 customers in southwestern Ohio and northern Kentucky

COMMERCIAL POWER

GENERATION DIVERSITY
(percent owned capacity)



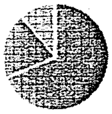
▨ Coal	41%
▨ Natural Gas	44%
▨ Renewable	12%
▨ Other	3%

Commercial Power owns, operates and manages power plants, primarily located in the Midwest, and a renewable energy portfolio. Commercial Power's subsidiary, Duke Energy Retail, serves retail electric customers in Ohio with generation and other energy services at competitive rates. Commercial Power also includes Duke Energy Generation Services (DEGS), an on-site energy solutions and utility services provider.

- Owns and operates a balanced generation portfolio of approximately 7,550 net MW of power generation (excluding wind and solar generation assets)
- Duke Energy Renewables currently has approximately 986 MW of wind energy in operation and over 5,000 MW of wind energy projects in development, and owns 16 MW of commercial solar capacity

DUKE ENERGY INTERNATIONAL

GENERATION DIVERSITY
(percent owned capacity)



▨ Hydro	69%
▨ Fuel Oil	20%
▨ Natural Gas	11%

Duke Energy International (DEI) operates and manages power generation facilities and engages in sales and marketing of electric power and natural gas outside the U.S. DEI's activities target power generation in Latin America. DEI also has an equity investment in National Methanol Co., a Saudi Arabian regional producer of MTBE, a gasoline additive.

- Owns, operates or has substantial interests in approximately 4,200 net MW of generation facilities
- About 70 percent of DEI's generating capacity is hydroelectric

SAFE HARBOR STATEMENT

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by words or phrases such as "may," "will," "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "forecast," and other words and terms of similar meaning. Forward-looking statements involve estimates, expectations, projections, goals, forecasts, assumptions, risks and uncertainties. Duke Energy and Progress Energy caution readers that any forward-looking statement is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statement. Such forward-looking statements include, but are not limited to, statements about the benefits of the proposed merger involving Duke Energy and Progress Energy, including future financial and operating results, Duke Energy's or Progress Energy's plans, objectives, expectations and intentions, the expected timing of completion of the transaction, and other statements that are not historical facts. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include risks and uncertainties relating to: the ability to obtain the requisite Duke Energy and Progress Energy shareholder approvals; the risk that Duke Energy or Progress Energy may be unable to obtain governmental and regulatory approvals required for the merger, or required governmental and regulatory approvals may delay the merger or result in the imposition of conditions that could cause the parties to abandon the merger; the risk that a condition to closing of the merger may not be satisfied; the timing to consummate the proposed merger; the risk that the businesses will not be integrated successfully; the risk that the cost savings and any other synergies from the transaction may not be fully realized or may take longer to realize than expected; disruption from the transaction making it more difficult to maintain relationships with customers, employees or suppliers; the diversion of management time on merger-related issues; general worldwide economic conditions and related uncertainties; the effect of changes in governmental regulations; and other factors discussed or referred to in the "Risk Factors" section of each of Duke Energy's and Progress Energy's most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission. These risks, as well as other risks associated with the merger, will be more fully discussed in the joint proxy statement/prospectus that will be included in the Registration Statement on Form S-4 that will be filed with the SEC in connection with the merger. Additional risks and uncertainties are identified and discussed in Duke Energy's and Progress Energy's reports filed with the SEC and available at the SEC's website at www.sec.gov. Each forward-looking statement speaks only as of the date of the particular statement and neither Duke Energy nor Progress Energy undertakes any obligation to update or revise its forward-looking statements whether as a result of new information, future events or otherwise.

Additional information on the merger and where to find it

This document does not constitute an offer to sell or the solicitation of an offer to buy any securities, or a solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. In connection with the proposed merger between Duke Energy and Progress Energy, Duke Energy will file with the SEC a Registration Statement on Form S-4 that will include a joint proxy statement of Duke Energy and Progress Energy that also constitutes a prospectus of Duke Energy. Duke Energy and Progress Energy will deliver the joint proxy statement/prospectus to their respective shareholders. **Duke Energy and Progress Energy urge investors and shareholders to read the joint proxy statement/prospectus regarding the proposed merger when it becomes available, as well as other documents filed with the SEC, because they will contain important information.** You may obtain copies of all documents filed with the SEC regarding this transaction, free of charge, at the SEC's website (www.sec.gov). You may also obtain these documents, free of charge, from Duke Energy's website (www.duke-energy.com) under the heading "Investors" and then under the heading "Financials/SEC Filings."

Participants in the merger solicitation

Duke Energy, Progress Energy, and their respective directors, executive officers and certain other members of management and employees may be soliciting proxies from Duke Energy and Progress Energy shareholders in favor of the merger and related matters. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of Duke Energy and Progress Energy shareholders in connection with the proposed merger will be set forth in the joint proxy statement/prospectus when it is filed with the SEC. You can find information about Duke Energy's and Progress Energy's executive officers and directors in each of their most recent definitive proxy statement. Additional information about Duke Energy's and Progress Energy's executive officers and directors can be found in the above-referenced Registration Statement on Form S-4 when it becomes available. You can obtain free copies of these documents from Duke Energy and Progress Energy using the contact information above.

NON-GAAP FINANCIAL MEASURES

Adjusted Diluted Earnings per Share ("EPS")

Duke Energy's 2010 Annual Report references 2010 adjusted diluted EPS of $1.43. Adjusted diluted EPS is a non-GAAP (generally accepted accounting principles) financial measure as it represents diluted EPS from continuing operations attributable to Duke Energy Corporation common shareholders, adjusted for the per share impact of special items and the mark-to-market impacts of economic hedges in the Commercial Power segment. Special items represent certain charges and credits which management believes will not be recurring on a regular basis, although it is reasonably possible such charges and credits could recur. Mark-to-market adjustments reflect the mark-to-market impact of derivative contracts, which is recognized in GAAP earnings immediately as such derivative contracts do not qualify for hedge accounting or regulatory accounting, used in Duke Energy's hedging of a portion of the economic value of certain of its generation assets in the Commercial Power segment. The economic value of the generation assets is subject to fluctuations in fair value due to market price volatility of the input and output commodities (e.g., coal, power) and, as such, the economic hedging involves both purchases and sales of those input and output commodities related to the generation assets. Because the operations of the generation assets are accounted for under the accrual method, management believes that excluding the impact of mark-to-market changes of the economic hedge contracts from adjusted earnings until settlement better matches the financial impacts of the hedge contract with the portion of the economic value of the underlying hedged asset. Management believes that the presentation of adjusted diluted EPS provides useful information to investors, as it provides them an additional relevant comparison of the company's performance across periods. Adjusted diluted EPS is also used as a basis for employee incentive bonuses.

The most directly comparable GAAP measure for adjusted diluted EPS is reported diluted EPS from continuing operations attributable to Duke Energy Corporation common shareholders, which includes the impact of special items and the mark-to-market impacts of economic hedges in the Commercial Power segment. The following is a reconciliation of reported diluted EPS from continuing operations to adjusted diluted EPS for 2010, 2009, and 2008:

	2010	2009	2008
Diluted EPS from continuing operations, as reported	**$1.00**	$0.82	$1.01
Diluted EPS from discontinued operations, as reported	—	0.01	0.01
Diluted EPS from extraordinary items, as reported	—	—	0.05
Diluted EPS, as reported	**$1.00**	$0.83	$1.07
Adjustments to reported EPS:			
Diluted EPS from discontinued operations	—	(0.01)	(0.01)
Diluted EPS from extraordinary items	—	—	(0.05)
Diluted EPS impact of special items and mark-to-market in Commercial Power (see below)	**0.43**	0.40	0.20
Diluted EPS, adjusted	**$1.43**	$1.22	$1.21

The following is the detail of the $(0.43) per share in special items and mark-to-market in Commercial Power impacting adjusted diluted EPS for 2010:

(In millions, except per-share amounts)	**Pre-Tax Amount**	**Tax Effect**	**2010 Diluted EPS Impact**
Goodwill and other impairments	**$(660)**	**$ 58**	**$(0.46)**
Voluntary retirement plan & office consolidation costs	**(172)**	**67**	**(0.08)**
Costs to achieve the Cinergy merger	**(27)**	**10**	**(0.01)**
Litigation reserve	**(26)**	**10**	**(0.01)**
Asset sales	**248**	**(94)**	**0.12**
Mark-to-market impact of economic hedges	**33**	**(12)**	**0.01**
Total adjusted EPS impact			**$(0.43)**

The following is the detail of the $(0 40) per share in special items and mark-to-market in Commercial Power impacting adjusted diluted EPS for 2009:

(In millions, except per-share amounts)	Pre-Tax Amount	Tax Effect	2009 Diluted EPS Impact
Goodwill and other impairments	$(431)	$ 21	$(0 32)
Mark-to-market impact of economic hedges	(60)	22	(0 03)
International transmission adjustment	(32)	10	(0 02)
Crescent related guarantees and tax adjustments	(26)	(3)	(0 02)
Costs to achieve the Cinergy merger	(25)	10	(0.01)
Total adjusted EPS impact			$(0 40)

The following is the detail of the $(0.20) per share in special items and mark-to-market in Commercial Power impacting adjusted diluted EPS for 2008:

(In millions, except per-share amounts)	Pre-Tax Amount	Tax Effect	2008 Diluted EPS Impact
Crescent project impairments	$(214)	$83	$(0 10)
Emission allowances impairment	(82)	30	(0 04)
Mark-to-market impact of economic hedges	(75)	27	(0 04)
Costs to achieve the Cinergy merger	(44)	17	(0 02)
Total adjusted EPS impact			$(0 20)

2011 Adjusted Diluted EPS Outlook

Duke Energy's 2010 Annual Report references Duke Energy's forecasted 2011 adjusted diluted EPS outlook range of $1 35-$1 40 per share, which is consistent with the 2011 employee incentive earnings target. The materials also reference the forecasted range of growth of 4%-6% in adjusted diluted EPS (on a compound annual growth rate ("CAGR") basis) from a base of adjusted diluted EPS for 2009 of $1 22. Adjusted diluted EPS is a non-GAAP financial measure as it represents diluted EPS from continuing operations attributable to Duke Energy Corporation shareholders, adjusted for the per-share impact of special items and the mark-to-market impacts of economic hedges in the Commercial Power segment Special items represent certain charges and credits which management believes will not be recurring on a regular basis, although it is reasonably possible such charges and credits could recur. Mark-to-market adjustments reflect the mark-to-market impact of derivative contracts, which is recognized in GAAP earnings immediately as such derivative contracts do not qualify for hedge accounting or regulatory accounting treatment, used in Duke Energy's hedging of a portion of the economic value of its generation assets in the Commercial Power segment (as discussed separately under "Adjusted Diluted Earnings per Share ("EPS")"). The most directly comparable GAAP measure for adjusted diluted EPS is reported diluted EPS from continuing operations attributable to Duke Energy Corporation common shareholders, which includes the impact of special items and the mark-to-market impacts of economic hedges in the Commercial Power segment Due to the forward-looking nature of this non-GAAP financial measure for future periods, information to reconcile it to the most directly comparable GAAP financial measure is not available at this time, as management is unable to project special items or mark-to-market adjustments for future periods.

Adjusted Segment EBIT for 2009 and 2010

Duke Energy's 2010 Annual Report includes a discussion of adjusted segment EBIT for the years ended December 31, 2010 and 2009. The primary performance measure used by management to evaluate segment performance is segment EBIT from continuing operations, which at the segment level represents *all* profits from continuing operations (both operating and non-operating), including any equity in earnings of unconsolidated affiliates, before deducting interest and taxes, and is net of the income attributable to non-controlling interests. Management believes segment EBIT from continuing operations, which is the GAAP measure used to report segment results, is a good indicator of each segment's operating performance as it represents the results of Duke Energy's ownership interests in continuing operations without regard to financing methods or capital structures. Duke Energy also uses adjusted segment EBIT as a measure of historical and anticipated future segment performance. When used for future periods, adjusted segment EBIT may also include any amounts that may be reported as discontinued operations or extraordinary items.

Adjusted segment EBIT is a non-GAAP financial measure as it represents reported segment EBIT adjusted for the impact of special items and the mark-to market impacts of economic hedges in the Commercial Power segment Special items represent certain charges and credits which management believes will not be recurring on a regular basis, although it is reasonably possible such charges and credits could recur. Mark-to-market adjustments reflect the mark-to-market impact of derivative contracts, which is recognized in GAAP earnings immediately as such derivative contracts do not qualify for hedge accounting or regulatory accounting, used in Duke Energy's hedging of a portion of the economic value of certain of its generation assets in the Commercial Power segment (as discussed above under "Adjusted Diluted Earnings per Share ("EPS")"). Management believes that the presentation of adjusted segment EBIT provides useful information to investors, as it provides them an additional relevant comparison of a segment's performance across periods. The most directly comparable GAAP measure for adjusted segment EBIT is reported segment EBIT, which represents segment results from continuing operations, including any special items and the mark-to-market impacts of economic hedges in the Commercial Power segment.

The following is a reconciliation of adjusted segment EBIT for the years ended December 31, 2010 and 2009, to the most directly comparable GAAP measure:

For the Year Ended December 31, 2010

(In millions)	Adjusted Segment EBIT	Goodwill & Other Asset Impairments	Economic Hedges (Mark-to-Market)	Reported Segment EBIT
U.S. Franchised Electric & Gas	$2,966	$ —	$—	$2,966
Commercial Power	398	(660)	33	(229)
International Energy	486	—	—	486
Total 2010 reportable segment EBIT	$3,850	$(660)	$33	$3,223

For the Year Ended December 31, 2009

(In millions)	Adjusted Segment EBIT	International Transmission Adjustment	Goodwill & Other Asset Impairments	Economic Hedges (Mark-to-Market)	Reported Segment EBIT
U.S. Franchised Electric & Gas	$2,321	$ —	$ —	$ —	$2,321
Commercial Power	500	—	(413)	(60)	27
International Energy	409	(26)	(18)	—	365
Total 2009 reportable segment EBIT	$3,230	$(26)	$(431)	$(60)	$2,713

Adjusted Earnings per Share Accretion in Year One of Merger with Progress Energy

Duke Energy's 2010 Annual Report includes a reference to Duke Energy's assumption that the merger transaction is anticipated to be accretive in the first year after closing, based upon adjusted diluted EPS.

This accretion assumption is a non-GAAP financial measure as it is based upon diluted EPS from continuing operations attributable to Duke Energy Corporation shareholders, adjusted for the per-share impact of special items and the mark-to-market impacts of economic hedges in the Commercial Power segment (as discussed above under "Adjusted Diluted Earnings per Share ("EPS")"). The most directly comparable GAAP measure for adjusted diluted EPS is reported diluted EPS from continuing operations attributable to Duke Energy Corporation common shareholders, which includes the impact of special items (including costs-to-achieve the merger) and the mark-to-market impacts of economic hedges in the Commercial Power segment. On a reported diluted EPS basis, this transaction is not anticipated to be accretive due to the level of costs-to-achieve the merger. Due to the forward-looking nature of this non-GAAP financial measure for future periods, information to reconcile it to the most directly comparable GAAP financial measure is not available at this time, as management is unable to project special items or mark-to-market adjustments for future periods.

Dividend Payout Ratio

Duke Energy's 2010 Annual Report includes a discussion of Duke Energy's anticipated long-term dividend payout ratio of 65-70% based upon adjusted diluted EPS. This payout ratio is a non-GAAP financial measure as it is based upon forecasted diluted EPS from continuing operations attributable to Duke Energy Corporation shareholders, adjusted for the per-share impact of special items and the mark-to-market impacts of economic hedges in the Commercial Power segment (as discussed above under "Adjusted Diluted Earnings Per Share ("EPS")"). The most directly comparable GAAP measure for adjusted diluted EPS is reported diluted EPS from continuing operations attributable to Duke Energy Corporation common shareholders, which includes the impact of special items and the mark-to-market impacts of economic hedges in the Commercial Power segment. Due to the forward-looking nature of this non-GAAP financial measure for future periods, information to reconcile it to the most directly comparable GAAP financial measure is not available at this time, as management is unable to project special items or mark-to-market adjustments for future periods.

Total Available Liquidity

Duke Energy's 2010 Annual Report includes a discussion of total available liquidity. Total available liquidity is a non-GAAP financial measure as it represents cash and cash equivalents (excluding amounts held in foreign jurisdictions) and remaining availability under the master credit and regional bank credit facilities. The most directly comparable GAAP financial measure for available liquidity is cash and cash equivalents. The following is a reconciliation of total available liquidity as of December 31, 2010, to the most directly comparable GAAP measure:

(In millions)	As of December 31, 2010
Cash and cash equivalents	$1,670
Less: Amounts held in foreign jurisdictions	(724)
	946
Plus: Remaining availability under master credit and regional bank credit facilities	2,482
Total available liquidity	$3,428

Adjusted Operation, Maintenance and Other Expenses

Duke Energy's 2010 Annual Report includes a discussion of adjusted operation, maintenance and other costs ("O&M expenses"). Adjusted O&M expenses is a non-GAAP financial measure as it represents reported O&M expenses adjusted for the impact of special items and deferrals and cost recovery riders. Special items represent certain charges and credits, which management believes will not be recurring on a regular basis, although it is reasonably possible such charges and credits could recur. The most directly comparable GAAP measure for adjusted O&M expenses is reported O&M expenses, which includes the impact of special items. The following is a reconciliation of adjusted O&M expenses for the years ended December 31, 2010 and 2009, to the most directly comparable GAAP measure:

(In millions)	2010	2009
Operation, maintenance and other (a)	$3,825	$3,313
Transfers to capital (b)	108	149
Less:		
Voluntary retirement plan & office consolidation costs (c)	(164)	—
International transmission adjustment (c)	—	(30)
Costs to achieve the Cinergy merger (c)	(4)	(5)
Deferrals, recoverables, and other (d)	(343)	(85)
Adjusted operations and maintenance cost	$3,422	$3,342

(a) As reported in the Consolidated Statements of Operations for the years ended December 31, 2010 and December 31, 2009. 2008 and 2007 operation, maintenance and other expenses were $3,351 million and $3,324 million, respectively.

(b) Represents capitalized costs that were included for purposes of calculating the employee operations and maintenance costs target.

(c) Presented as a special item for purposes of calculating adjusted diluted earnings per share.

(d) Primarily represents expenses to be deferred or recovered through rate riders (e.g., impact of regulatory deferrals, reagents, etc.)

DUKE ENERGY CORPORATION

INVESTOR INFORMATION

Annual Meeting

The 2011 Annual Meeting of Duke Energy Shareholders will be:

Date: Thursday, May 5, 2011

Time: 10 a.m.

Place: O.J. Miller Auditorium
Energy Center
526 South Church Street
Charlotte, NC 28202

Shareholder Services

Shareholders may call 800-488-3853 or 704-382-3853 with questions about their stock accounts, legal transfer requirements, address changes, replacement dividend checks, replacement of lost certificates or other services. Additionally, registered shareholders can view their account online through DUK-Online, available at www.duke-energy.com.

Send written requests to:

Investor Relations
Duke Energy
P.O. Box 1005
Charlotte, NC 28201-1005

For electronic correspondence, visit www.duke-energy.com/investors/contactIR.

Stock Exchange Listing

Duke Energy's common stock is listed on the New York Stock Exchange. The company's common stock trading symbol is DUK.

Website Addresses

Corporate home page:
www.duke-energy.com
Investor Relations:
www.duke-energy.com/investors

InvestorDirect Choice Plan

The InvestorDirect Choice Plan provides a simple and convenient way to purchase common stock directly through the company, without incurring brokerage fees. Purchases may be made weekly. Bank drafts for monthly purchases, as well as a safekeeping option for depositing certificates into the plan, are available.

The plan also provides for full reinvestment, direct deposit or cash payment of a portion of the dividends. Additionally, participants may register for DUK-Online, our online account management service.

Financial Publications

Duke Energy's annual report and related financial publications can be found on our website at www.duke-energy.com/investors. Printed copies are also available free of charge upon request.

Duplicate Mailings

If your shares are registered in different accounts, you may receive duplicate mailings of annual reports, proxy statements and other shareholder information. Call Investor Relations for instructions on eliminating duplications or combining your accounts.

Transfer Agent and Registrar

Duke Energy maintains shareholder records and acts as transfer agent and registrar for the company's common stock.

Dividend Payment

Duke Energy has paid quarterly cash dividends on its common stock for 84 consecutive years. For the remainder of 2011, dividends on common stock are expected to be paid, subject to declaration by the Board of Directors, on June 16, Sept. 16 and Dec. 16.

Bond Trustee

If you have questions regarding your bond account, call 800-254-2826, or write to:

The Bank of New York Mellon
Global Trust Services
101 Barclay Street — 21st Floor
New York, NY 10286

Send Us Feedback

We welcome your opinion on this annual report. Please visit www.duke-energy.com/investors, where you can view and provide feedback on both the print and online versions of this report. Or contact Investor Relations directly. Duke Energy is an equal opportunity employer. This report is published solely to inform shareholders and is not to be considered an offer, or the solicitation of an offer, to buy or sell securities.

Products with a Mixed Sources label support the development of responsible forest management worldwide. The wood comes from Forest Stewardship Council® (FSC)™-certified well-managed forests, company-controlled sources and/or recycled material. This annual report is printed on paper manufactured with energy generated from renewable sources.

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Energy®

526 South Church Street
Charlotte, NC 28202-1802
www.duke-energy.com

OUR MISSION

At Duke Energy, we make people's lives better by providing gas and electric services in a sustainable way — affordable, reliable and clean. This requires us to constantly look for ways to improve, to grow and to reduce our impact on the environment.

OUR VALUES

Safety: We put safety first in all we do.

Caring: We look out for each other. We strive to make the environment and communities around us better places to live.

Integrity: We do the right thing. We honor our commitments. We admit when we're wrong.

Openness: We're open to change and to new ideas from our co-workers, customers and other stakeholders. We explore ways to grow our business and make it better.

Passion: We're passionate about what we do. We strive for excellence. We take personal accountability for our actions.

Respect: We value diverse talents, perspectives and experiences. We treat others the way we want to be treated

Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-011

REQUEST:

~~Refer to page 5, lines 7-9 of the Direct Testimony of William D. Johnson ("Johnson~~ Testimony"). The testimony indicates that Progress's 2010 annual report is attached as Exhibit C to the application; however, Exhibit C is identified as Progress's 2009 annual report.

a. Explain whether Joint Applicants intended to the include Progress's 2010 annual report as Exhibit C but inadvertently included the 2009 report, or whether the testimony intended to reference Progress's 2009 annual report.

b. Explain whether Progress's 2010 annual report is now available. If yes, provide the report. If no, state when the 2010 report will be available.

RESPONSE:

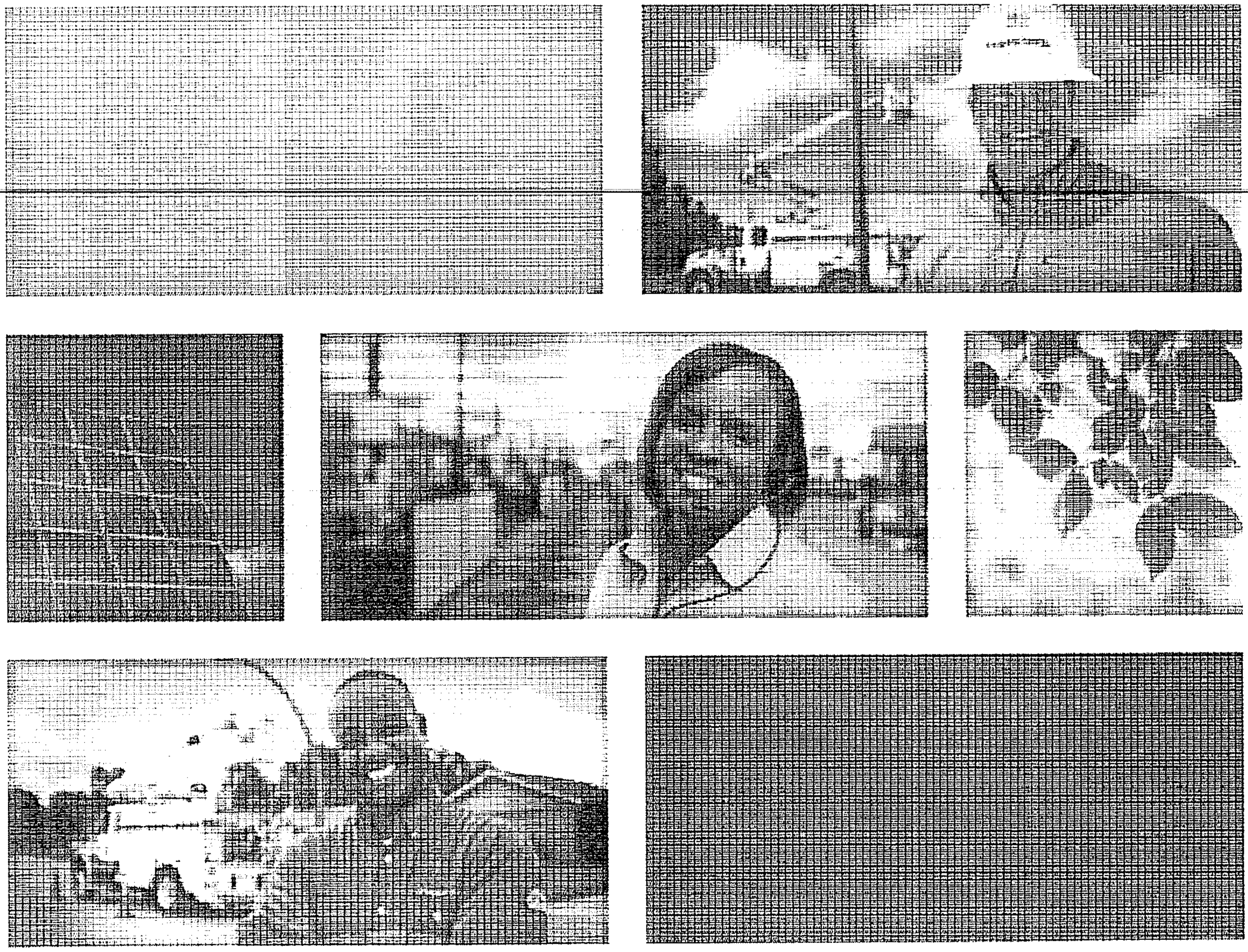
a Joint Applicants intended to include Progress 2010 annual report.

b. Please see Attachment Staff DR-01-11b

PERSON RESPONSIBLE: Holly H. Wenger

2010 Annual Report | Notice of Annual Meeting | Proxy Statement

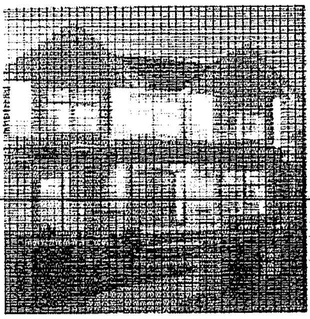
Progress Energy 2010 Annual Report | Notice of Annual Meeting | Proxy Statement

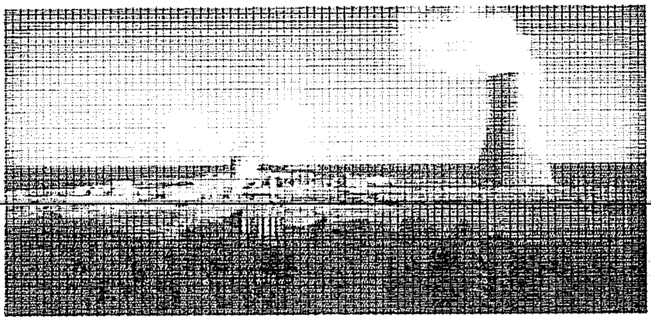


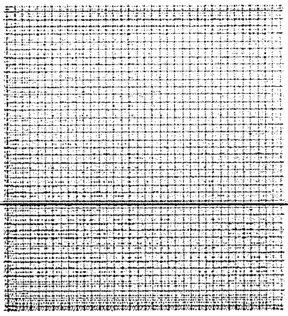
Manage the present. Create the future.

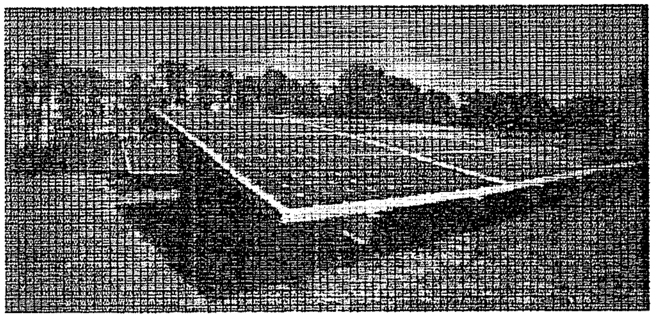
BUILD NEW CONNECTIONS.

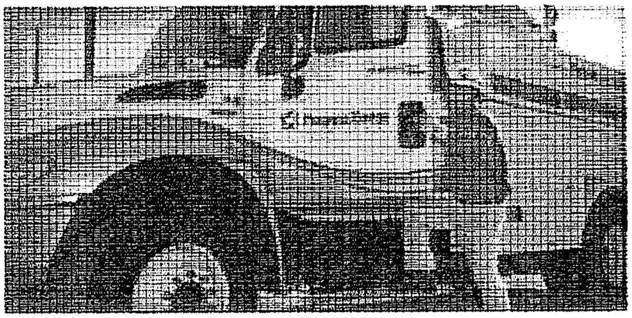
Progress Energy











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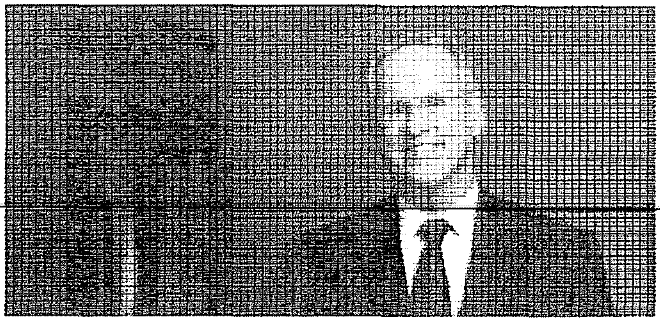


A MESSAGE FROM OUR CEO

DEAR SHAREHOLDERS:

This report in early spring 2011 comes after a year of strong results at Progress Energy and during a time of major transition for our company and industry. I am very pleased with how our employees continue to build on success in our core mission of serving customers and in our financial returns for shareholders.

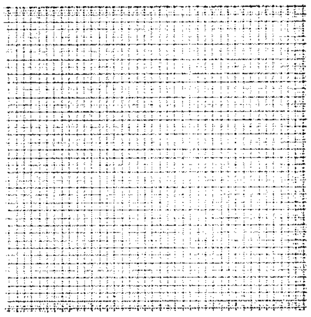
Our company and Duke Energy, our utility neighbor based in Charlotte, N.C., announced a strategic business combination in January 2011. Once approved, this combination will create the largest utility in the United States. We believe this is a natural fit that will benefit both customers and shareholders. It will mean a stronger company positioned to create a better future.

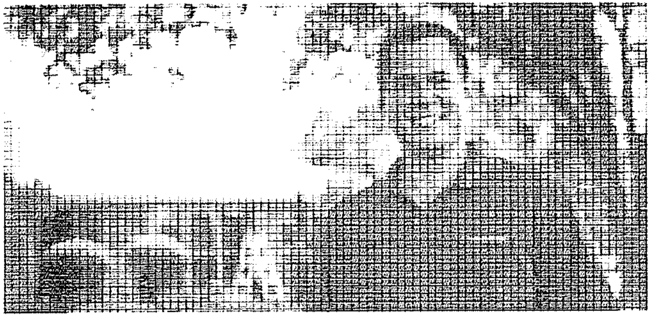
Meanwhile, as we move through the merger approval process in 2011 and plan how best to integrate the two organizations, we are keeping a sharp focus on excelling in the daily fundamentals and meeting our current responsibilities. In this business, we can't afford to miss a beat. Operational focus and financial discipline are essential even as we adapt to a changing industry and prepare for the decades to come.

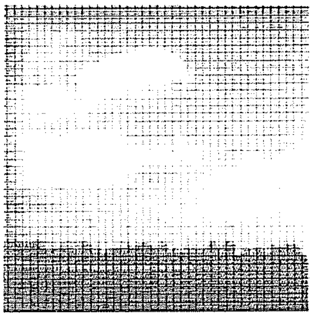
2010 Performance

Progress Energy delivered a 12.6 percent total return to shareholders in 2010 (dividend plus stock-price appreciation for the 12 months) and for the fifth consecutive year achieved ongoing earnings per share in our original targeted range or higher. Helped by favorable weather, we slightly exceeded the top end of the range in 2010. We also maintained our long record of commitment to the dividend.

The economy is slowly recovering in the areas we serve in the Carolinas and Florida. Our net average number of







total customers grew by 14,000 in 2010, including the first customer growth in Florida in three years. We are encouraged by the prospects for growth in our customer base and the overall economy.

Progress Energy provided reliable, affordable service to our 3.1 million customers even in a year that had more than its share of severe weather and extreme temperatures. We also were pleased that the Florida Public Service Commission approved a constructive rate settlement that stabilized our base rates through 2012.

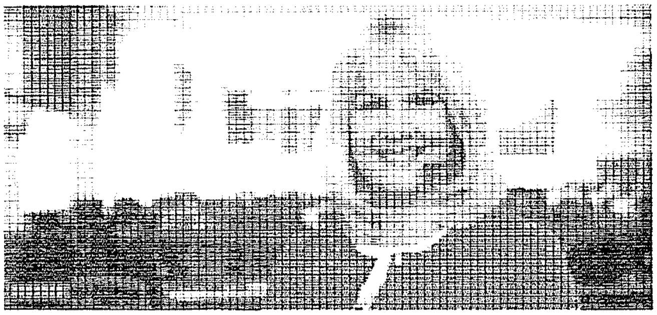
Our company continues to earn positive external recognition for environmental stewardship and customer service. Progress Energy was named to the Dow Jones Sustainability Index for the sixth consecutive year, and Progress Energy Carolinas was ranked third in the South and fifth nationwide in customer satisfaction among large utilities in the latest J.D. Power and Associates survey of business customers.

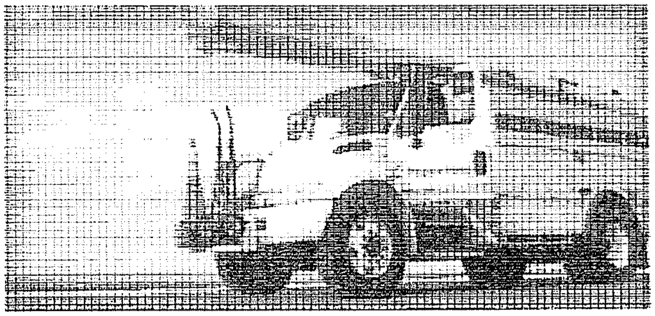
An industry in transition

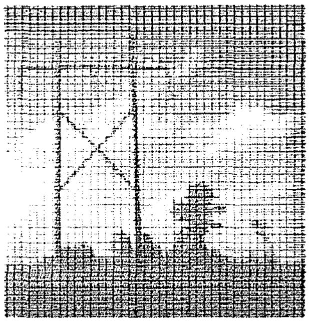
The United States' electric power system is at the front edge of a long-term transformation. It is being driven by new governmental policies, technological developments and aging facilities, as well as by changes in our economy and customer behavior.

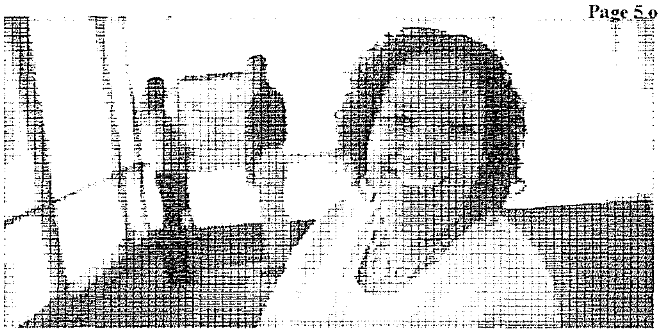
This transformation will require retiring older coal-fired plants, modernizing the electric grid and investing in clean energy facilities that range from large nuclear plants to small renewable-energy projects. And it will require understanding electricity customers at a deeper level. These and other changes will mean an overall power system that is getting smarter, cleaner and more secure.

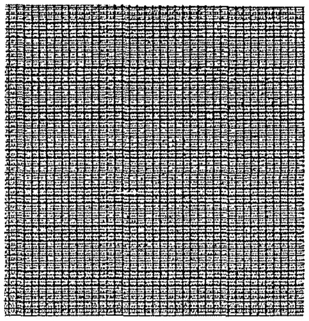
Making these changes will require enormous capital investments that will be reflected in what customers pay for electricity. Along with others in our industry, I am advocating that we work in a collaborative way with policymakers and regulators to manage this transition in a cost-effective,











orderly way. We need a flexible, balanced approach to energy and environmental policy that minimizes the cumulative cost impact on customers and maintains the reliability of service that underpins our economy and way of life

A strategic merger

Progress Energy and Duke Energy will merge in a stock-for-stock transaction according to the definitive merger agreement unanimously approved by both companies' boards of directors in January 2011. This strategic combination, to be known by the Duke Energy corporate name, will have an enterprise value of about $65 billion and a regulated customer base of more than 7 million households and businesses in six states

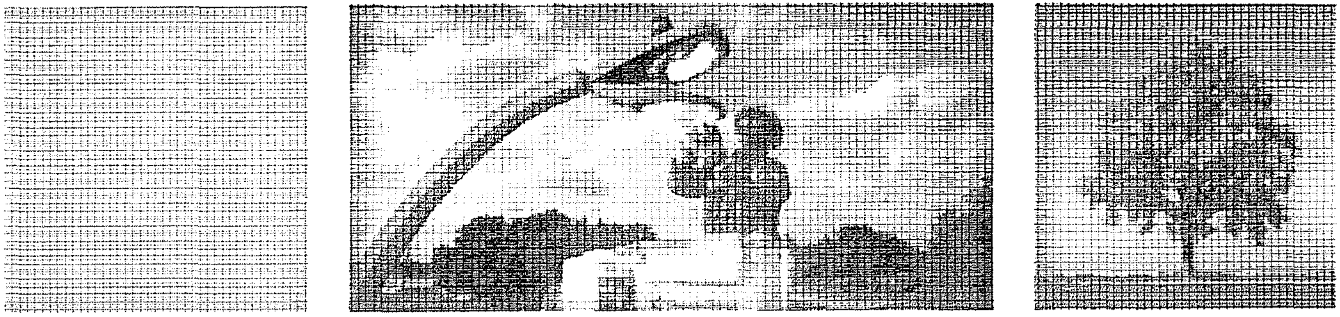
By joining forces with Duke Energy, our neighbor for more than a century, we will be in a better position to manage the transformation occurring in our industry and hold down some of the rate pressure on our customers The combined company will have greater financial strength to support potential dividend growth while raising the large amounts of capital needed to modernize our system, meet new environmental rules and keep up with population growth.

Later this year, shareholders will receive more information about the Duke-Progress merger and the opportunity to vote on the transaction The merger must be approved by the shareholders of both companies and by several state and

FINANCIAL HIGHLIGHTS

Years ended December 31 *(in millions, except per share data)*	**2010**	2009	2008
Financial Data			
Operating revenues	**$10,190**	$9,885	$9,167
Net income attributable to controlling interests	856	757	830
Income from continuing operations	**857**	840	778
*Ongoing earnings per common share**	**3.06**	3.03	2.96
Reported GAAP eamings per common share	**2.95**	2.71	3.17
Average common shares outstanding	**291**	279	262
Common Stock Data			
Return on average common stock equity (percent)	**8.70**	8.13	9.59
Book value per common share	**$34.05**	$33.53	$32.97
Market value per common share (closing)	**$43.48**	$41.01	$39.85

*See page 175 for a reconciliation of ongoing earnings per share to reported GAAP earnings per share



federal agencies. We are targeting a closing by the end of 2011. When the merger is completed, I will become the president and chief executive officer of the new company. Duke Energy's current chairman, president and chief executive officer, Jim Rogers, will become the executive chairman.

Focused on the business at hand

Merger approvals and integration planning will require attention in 2011. Even so, we are keeping our main focus on the business at hand this year at Progress Energy, and we have a clear plan for success.

Our approach starts, as always, with a relentless focus on the fundamentals of this business: safety, operational excellence, customer satisfaction and aggressive cost management. It also includes continuing efforts to foster a workplace culture with high standards of personal behavior and accountability. This culture is a prime reason we are able to attract and retain the high caliber of employees we need.

In addition, our company has four areas of special focus in 2011: (1) improving the overall performance of our nuclear plants; (2) accelerating Continuous Business Excellence our companywide initiative to improve efficiency and service while achieving sustainable savings; (3) optimizing our Balanced Solution Strategy, a diverse portfolio of investments that enable us to meet customers' growing needs and new public policies while creating long-term value; and (4) achieving timely merger approvals and effective integration planning to position the combined Duke-Progress for success.

Building new connections

Progress Energy has been closely connected to the communities we serve for more than a century, and we're proud of our long tradition of dependable service and active community involvement. We also tend to have long-term connections with our shareholders, based on our consistent track record of financial performance and the reliability of our dividend.

In this time of transition for our company and industry, the merger with Duke Energy represents a unique opportunity. We can build on the successful history of our two companies and form new connections on a larger scale. Stay tuned for more information about the merger in the weeks ahead.

In closing, I want to express my deep appreciation for the superb commitment and hard work of our employees and for the confidence that so many of you reading this report have shown in Progress Energy. We're intent on earning your confidence day after day as we manage the present, create the future and build new connections.

William D. Johnson
Chairman, President and Chief Executive Officer
March 2011

Cautionary statements regarding forward-looking information

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by words or phrases such as "may," "will," "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "forecast," and other words and terms of similar meaning. Forward-looking statements involve estimates, expectations, projections, goals, forecasts, assumptions, risks and uncertainties. Progress Energy cautions readers that any forward-looking statement is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statement. Such forward-looking statements include, but are not limited to, statements about the benefits of the proposed merger involving Duke Energy and Progress Energy, including future financial and operating results, Progress Energy's or Duke Energy's plans, objectives, expectations and intentions, the expected timing of completion of the transaction, and other statements that are not historical facts. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include risks and uncertainties relating to the ability to obtain the requisite Duke Energy and Progress Energy shareholder approvals; the risk that Progress Energy or Duke Energy may be unable to obtain governmental and regulatory approvals required for the merger, or required governmental and regulatory approvals may delay the merger or result in the imposition of conditions that could cause the parties to abandon the merger; the risk that a condition to closing of the merger may not be satisfied; the timing to consummate the proposed merger; the risk that the businesses will not be integrated successfully; the risk that the cost savings and any other synergies from the transaction may not be fully realized or may take longer to realize than expected, disruption from the transaction making it more difficult to maintain relationships with customers, employees or suppliers; the diversion of management time on merger-related issues; general worldwide economic conditions and related uncertainties; the effect of changes in governmental regulations; and other factors we discuss or refer to in the "Risk Factors" section of our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC). These risks, as well as other risks associated with the merger, will be more fully discussed in the joint proxy statement/prospectus that will be included in the Registration Statement on Form S-4 that will be filed with the SEC in connection with the merger. Additional risks and uncertainties are identified and discussed in Progress Energy's and Duke Energy's reports filed with the SEC and available at the SEC's website at www.sec.gov. Each forward-looking statement speaks only as of the date of the particular statement and neither Progress Energy nor Duke Energy undertakes any obligation to update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

Additional information and where to find it

This document does not constitute an offer to sell or the solicitation of an offer to buy any securities, or a solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. In connection with the proposed merger between Duke Energy and Progress Energy, Duke Energy will file with the SEC a Registration Statement on Form S-4 that will include a joint proxy statement of Duke Energy and Progress Energy that also constitutes a prospectus of Duke Energy. Duke Energy and Progress Energy will deliver the joint proxy statement/prospectus to their respective shareholders. **Duke Energy and Progress Energy urge investors and shareholders to read the joint proxy statement/prospectus regarding the proposed merger when it becomes available, as well as other documents filed with the SEC, because they will contain important information.** You may obtain copies of all documents filed with the SEC regarding this transaction, free of charge, at the SEC's website (www.sec.gov). You may also obtain these documents, free of charge, from Duke Energy's website (www.duke-energy.com) under the heading "Investors" and then under the heading "Financials/SEC Filings." You may also obtain these documents, free of charge, from Progress Energy's website (www.progress-energy.com/investor).

Participants in the merger solicitation

Duke Energy, Progress Energy, and their respective directors, executive officers and certain other members of management and employees may be soliciting proxies from Duke Energy and Progress Energy shareholders in favor of the merger and related matters. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of Duke Energy and Progress Energy shareholders in connection with the proposed merger will be set forth in the joint proxy statement/prospectus when it is filed with the SEC. You can find information about Duke Energy's executive officers and directors in its definitive proxy statement filed with the SEC on March 17, 2011. You can find information about Progress Energy's executive officers and directors in its definitive proxy statement filed with the SEC on March 31, 2011. Additional information about Duke Energy's executive officers and directors and Progress Energy's executive officers and directors can be found in the above-referenced Registration Statement on Form S-4 when it becomes available. You can obtain free copies of these documents from Duke Energy and Progress Energy using the contact information above.

Executive and Senior Officers

William D. Johnson
Chairman, President and Chief Executive Officer
Progress Energy, Inc.

John R. McArthur
Executive Vice President, General Counsel
and Corporate Secretary
Progress Energy, Inc.

Chief Compliance Officer
Progress Energy, Inc.
Progress Energy Carclinas, Inc.
Progress Energy Florida, Inc.

Mark F. Mulhern
Senior Vice President and Chief Financial Officer
Progress Energy, Inc.

Jeffrey J. Lyash
Executive Vice President – Energy Supply
Progress Energy, Inc.

Vincent M. Dolan
President and Chief Executive Officer
Progress Energy Florida, Inc

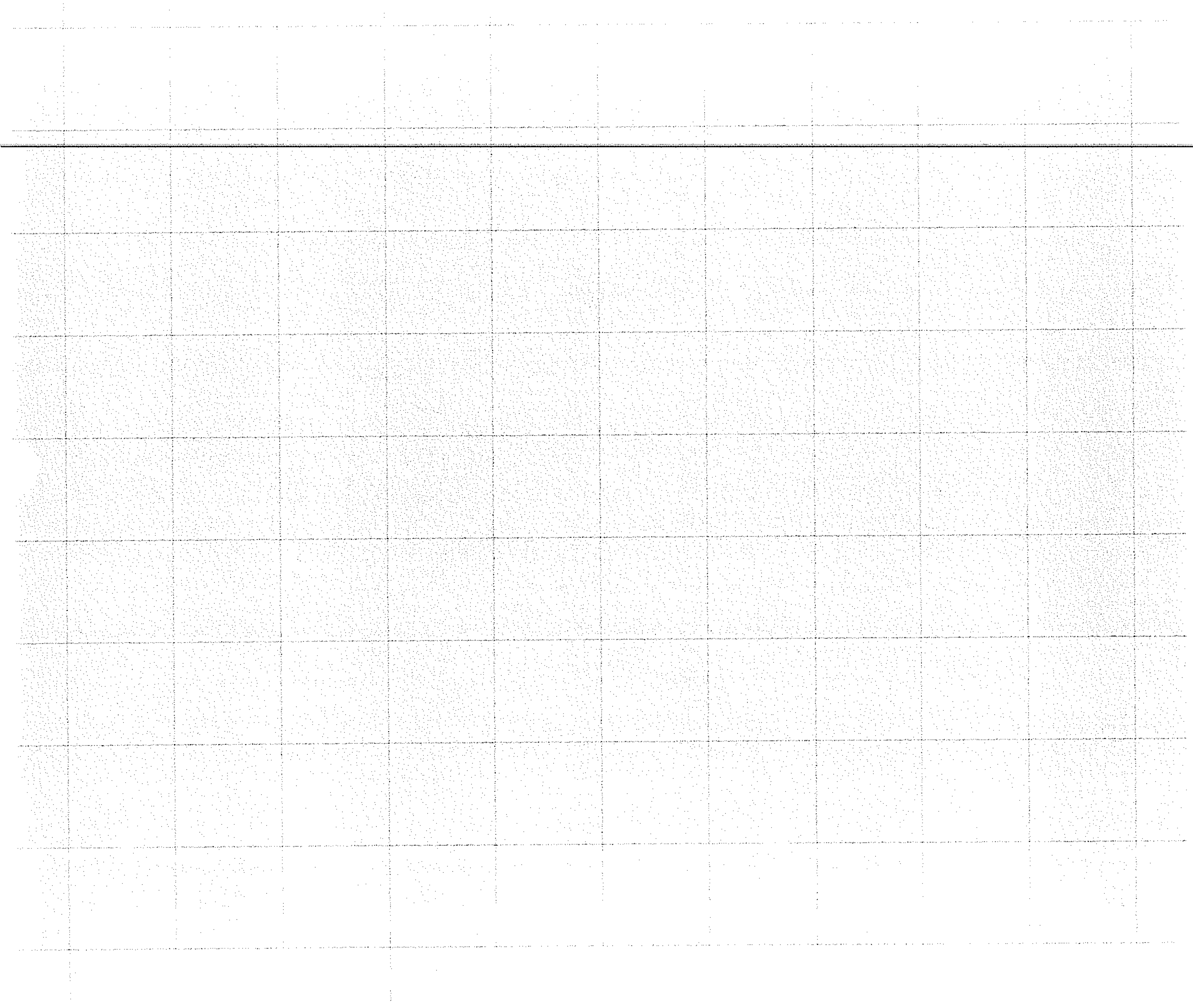
Lloyd M. Yates
President and Chief Executive Officer
Progress Energy Carolinas, Inc

Jeffrey A. Corbett
Senior Vice President – Energy Delivery
Progress Energy Carolinas, Inc

Michael A. Lewis
Senior Vice President – Energy Delivery
Progress Energy Florida, Inc

James Scarola
Senior Vice President and Chief Nuclear Officer
Progress Energy Carolinas, Inc
Progress Energy Florida, Inc.

Paula J. Sims
Senior Vice President – Corporate Development
and Improvement
Progress Energy Carolinas, Inc
Progress Energy Florida, Inc



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SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

The matters discussed throughout this Annual Report that are not historical facts are forward looking and, accordingly, involve estimates, projections, goals, forecasts, assumptions, risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Any forward-looking statement is based on information current as of the date of this report and speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made.

In addition, examples of forward-looking statements discussed in this Annual Report include, but are not limited to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" including, but not limited to, statements under the following headings: a) "Merger" about the proposed merger between Progress Energy and Duke Energy Corporation and the impact on our strategy and liquidity; b) "Strategy" about our future strategy and goals; c) "Results of Operations" about trends and uncertainties; d) "Liquidity and Capital Resources" about operating cash flows, future liquidity requirements and estimated capital expenditures; and e) "Other Matters" about the effects of new environmental regulations, changes in the regulatory environment, meeting anticipated demand in our regulated service territories, potential nuclear construction and our synthetic fuels tax credits.

Examples of factors that you should consider with respect to any forward-looking statements made throughout this document include, but are not limited to, the following:

- our ability to obtain the approvals required to complete the Merger and the impact of compliance with material restrictions or conditions potentially imposed by our regulators;
- the risk that the Merger is terminated prior to completion and results in significant transaction costs to us;
- our ability to achieve the anticipated results and benefits of the Merger;
- the impact of business uncertainties and contractual restrictions while the Merger is pending,
- the impact of fluid and complex laws and regulations, including those relating to the environment and energy policy;
- our ability to recover eligible costs and earn an adequate return on investment through the regulatory process;
- the ability to successfully operate electric generating facilities and deliver electricity to customers,
- the impact on our facilities and businesses from a terrorist attack;
- the ability to meet the anticipated future need for additional baseload generation and associated transmission facilities in our regulated service territories and the accompanying regulatory and financial risks;
- our ability to meet current and future renewable energy requirements;
- the inherent risks associated with the operation and potential construction of nuclear facilities, including environmental, health, safety, regulatory and financial risks;
- the financial resources and capital needed to comply with environmental laws and regulations;
- risks associated with climate change;
- weather and drought conditions that directly influence the production, delivery and demand for electricity;
- recurring seasonal fluctuations in demand for electricity;
- the ability to recover in a timely manner, if at all, costs associated with future significant weather events through the regulatory process;
- fluctuations in the price of energy commodities and purchased power and our ability to recover such costs through the regulatory process;
- our ability to control costs, including operations and maintenance expense (O&M) and large construction projects;
- the ability of our subsidiaries to pay upstream dividends or distributions to Progress Energy, Inc holding company (the Parent);
- current economic conditions;
- the ability to successfully access capital markets on favorable terms;
- the stability of commercial credit markets and our access to short- and long-term credit;
- the impact that increases in leverage or reductions in cash flow may have on us;
- our ability to maintain our current credit ratings and the impacts in the event their credit ratings are downgraded;
- the investment performance of our nuclear decommissioning trust (NDT) funds;

- the investment performance of the assets of our pension and benefit plans and resulting impact on future funding requirements;
- the impact of potential goodwill impairments;
- our ability to fully utilize tax credits generated from the previous production and sale of qualifying synthetic fuels under Internal Revenue Code Section 29/45K (Section 29/45K); and
- the outcome of any ongoing or future litigation or similar disputes and the impact of any such outcome or related settlements.

Many of these risks similarly impact our nonreporting subsidiaries.

These and other risk factors are detailed from time to time in our filings with the SEC. All such factors are difficult to predict, contain uncertainties that may materially affect actual results and may be beyond our control. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor can management assess the effect of each such factor on Progress Energy.

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains forward-looking statements that involve estimates, projections, goals, forecasts, assumptions, risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Please review "Safe Harbor for Forward-Looking Statements" for a discussion of the factors that may impact any such forward-looking statements made herein. As used in this report, Progress Energy, which includes the Parent and its regulated and nonregulated subsidiaries on a consolidated basis, is at times referred to as "we," "us" or "our."

MD&A includes financial information prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as well as certain non-GAAP financial measures, "Ongoing Earnings" and "Base Revenues," discussed below. Generally, a non-GAAP financial measure is a numerical measure of financial performance, financial position or cash flows that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP financial measures should be viewed as a supplement to, and not a substitute for, financial measures presented in accordance with GAAP. Non-GAAP measures as presented herein may not be comparable to similarly titled measures used by other companies. Additionally, we may collectively refer to our electric utility subsidiaries, Progress Energy Carolinas (PEC) and Progress Energy Florida (PEF), as the "Utilities." MD&A should be read in conjunction with the Progress Energy Consolidated Financial Statements. Certain amounts for 2009 and 2008 have been reclassified to conform to the 2010 presentation.

INTRODUCTION

Our reportable business segments are PEC and PEF, and their primary operations are the generation, transmission, distribution and sale of electricity in portions of North Carolina and South Carolina and in portions of Florida, respectively. The "Corporate and Other" segment primarily includes the operations of the Parent, Progress Energy Service Company, LLC (PESC) and other miscellaneous nonregulated businesses that do not separately meet the quantitative requirements as a separate reportable business segment.

Merger

On January 8, 2011, Duke Energy Corporation (Duke Energy) and Progress Energy entered into an Agreement and Plan of Merger (the Merger Agreement). Pursuant to the Merger Agreement, Progress Energy will be acquired by Duke Energy in a stock-for-stock transaction (the Merger) and continue as a wholly owned subsidiary of Duke Energy. Consummation of the Merger is subject to customary conditions, including, among other things, approval of the shareholders of each company, expiration or termination of the applicable Hart-Scott-Rodino Act waiting period, and receipt of all approvals, to the extent required, from the Federal Energy Regulatory Commission (FERC), the Federal Communications Commission, the Nuclear Regulatory Commission (NRC), the North Carolina Utilities Commission (NCUC), the Kentucky Public Service Commission, the South Carolina Public Service Commission (SCPSC), the Florida Public Service Commission (FPSC), the Indiana Utility Regulatory Commission and the Ohio Public Utilities Commission.

See Note 25 for additional information related to the Merger.

The Merger Agreement includes certain restrictions, limitations and prohibitions as to actions we may or may not take in the period prior to consummation of the Merger as discussed below. At this time, we do not anticipate modifying our 2011 strategy discussed below but cannot predict the impact consummation of the Merger will have on our long-term strategy. The combined company's expected balance sheet and credit metrics are anticipated to enhance our growth opportunities and strategic options.

We do not expect the Merger to have a significant impact on our cash requirements and sources of liquidity during 2011, except that we do not expect to issue a material amount of equity. Pursuant to the Merger Agreement, only limited equity issuances through certain employee benefit plans and stock option plans are permitted. Additionally, the Merger Agreement restricts our ability, without Duke Energy's consent, to increase the common stock dividend rate until consummation or termination of the Merger Agreement. Total capital spending and the extent to which we can obtain financing through long-term debt issuances are also limited.

The Parent's credit facility expires May 3, 2012, and the combined shelf registration statement for the Parent, PEC and PEF expires November 18, 2011. The timing and structure of refinancing the Parent's credit facility and filing the combined shelf registration statement with the SEC will be evaluated as more definitive timelines for the Merger and integration are developed (see "Future Liquidity and Capital Resources – Credit Facilities and Registration Statements" below).

Certain substantial changes in ownership of Progress Energy, including the Merger, can impact the timing of the utilization of tax credit carry forwards and net operating loss carry forwards (See Note 14).

The companies are targeting for the Merger to close by the end of 2011. Until the Merger has received all necessary approvals and has closed, the companies will continue to operate as separate entities. Accordingly, the information presented in this Form 10-K is presented on a pre-merger basis.

Strategy

We are an integrated energy company primarily focused on the end-use electricity markets. We own two electric utilities that operate in regulated retail utility markets in North Carolina, South Carolina and Florida and have access to attractive wholesale markets in the eastern United States. The Utilities have more than 22,000 megawatts (MW) of regulated electric generation capacity and serve approximately 3.1 million retail electric customers as well as other load-serving entities.

We have a strong track record of meeting our financial commitments. We have maintained liquidity and financial stability and sustained our dividend rate during the current economic downturn, and we believe that we have good prospects for growth once the economy begins to recover. In terms of our priorities for Progress Energy as a whole, we first focus on excelling in the fundamentals of our business. These fundamentals include safety, operational excellence, customer service, consistently achieving our financial objectives, maintaining constructive relations with regulators, political leaders and the general public as well as an internal focus on strong leadership that fully engages our workforce for high performance. In addition to excelling in these fundamentals, management has the following four focus areas for 2011:

- Improve the performance of our nuclear fleet
- Accelerate Continuous Business Excellence
- Optimize our balanced solution strategy
- Achieve effective integration planning and timely merger approvals

IMPROVE NUCLEAR FLEET PERFORMANCE

We are implementing a comprehensive improvement plan designed to strengthen and align the performance of our nuclear fleet. We are committed to raising our nuclear fleet performance to a consistently high level of safety, reliability and value. To do that, we have made a number of organizational changes and have intensified our focus on plant operations, outage planning and execution, and continuous improvement. We are also leveraging the expertise and capabilities of our company as a whole to meet these nuclear fleet objectives.

CONTINUOUS BUSINESS EXCELLENCE

For the past several years, we have been applying a continuous improvement framework to our operations through our Continuous Business Excellence initiative. Through a disciplined approach to identifying and eliminating waste and continuously improving our business, we are developing sustainable process improvements. We are gaining a clearer understanding of our cost drivers and of the dynamics shaping our near- and longer-term workforce planning needs. In addition, we have been applying the "Lean" process to our operations (Lean is a set of principles, tools, and techniques for improving the operating performance of any business). During 2010, we held more than 200 Lean events, a 50 percent increase over the prior year. The process changes resulting from these events are improving our safety and operational performance, enhancing the productivity and engagement of our employees, managing our rising costs and, ultimately, increasing customer satisfaction.

BALANCED SOLUTION STRATEGY

Our balanced solution strategy is a portfolio of investments and initiatives to meet future customer needs and evolving public policies in a way that creates long-term value for our customers and shareholders. The strategy is focused on expanding the diversity of our resources, including energy efficiency, alternative energy and a state-of-the-art power system. Expenditures to achieve our balanced solution are anticipated to be recoverable under base rates or cost-recovery mechanisms implemented by our state jurisdictions. Updates on our implementation of this strategy are discussed below.

First, we are continuing to expand and enhance our demand-side management (DSM), energy-efficiency (EE) and energy-conservation programs. We have implemented customer energy-saving programs, provided customers with incentives for efficiency improvements and expanded our customer education and outreach efforts. In addition, we are a leader in the utility industry in promoting and preparing for plug-in electric vehicles. We are participating, along with nine other utilities across the nation, in Chevrolet's two-year demonstration and research program for its Volt electric vehicle. As a program participant, we will use 12 electric vehicles to conduct a variety of utility service roles. Additionally, we will gather data from driver surveys and charging stations and study the impact of the vehicles on the electric grid.

Second, we are actively engaged in a variety of alternative energy projects. We have executed contracts to purchase 311 MW of electricity generated from solar, biomass and municipal solid waste sources. While this currently represents a small percentage of our total capacity, we will continue to pursue additional contracts for these and other alternative energy sources. PEC is on track to meet the first of the targets set under North Carolina's renewable energy portfolio standard, 3 percent of retail electric sales by 2012.

Third, we are pursuing numerous options to create a state-of-the-art power system. We are making a significant investment in smart grid technology with the initiatives partially funded by $200 million of federal matching infrastructure funds. Our strategy also includes advanced environmental controls on our coal-fired plants, and we have successfully completed the $2 billion of emission control installations planned for our coal fleets in North Carolina and Florida. Of our approximately 7,500 MW of coal-fired generation, we have scrubbed and installed emission control equipment on almost 5,000 MW. We are also moving forward with our previously announced coal-to-gas modernization strategy, which includes retiring our North Carolina coal-fired plants that do not have scrubbers (totaling approximately 1,500 MW) and replacing them with new combined-cycle natural gas plants. We expect to retire these coal-fired generating facilities no later than the end of 2014, and the new natural gas plants are expected to be placed in service in 2013 and 2014. As a result of the installation of environmental controls and the retirement of unscrubbed coal-fired plants, our emissions profile will be significantly reduced while strengthening our fuel diversification. A reduced emissions profile puts us in a better position to comply with the more stringent environmental regulations anticipated in the future.

New nuclear generation is a vital long-term part of our balanced solution strategy. While we have not made a final determination on nuclear construction, we have taken steps to keep open the option of building one or more plants. The Utilities have each filed a combined license (COL) application with the NRC for two additional reactors each at Shearon Harris Nuclear Plant (Harris) and at a greenfield site in Levy County, Florida (Levy).

We have focused on Levy given the need for more fuel diversity in Florida and anticipated federal and state policies to reduce greenhouse gas (GHG) emissions, as well as existing state legislative policy that is supportive of nuclear projects. PEF has entered into an engineering, procurement and construction (EPC) agreement and received two of the three key approvals needed for the proposed Levy units (with the issuance of the COL remaining). In light of a regulatory schedule shift and other factors, we have amended the EPC agreement and are deferring major construction on Levy until we receive the COL, expected in 2013. This decision will reduce the near-term price impact on customers and allows time for economic recovery and greater clarity on federal and state policies. Once we have received the COL, we will assess the project and determine the schedule

INTEGRATION PLANNING AND TIMELY MERGER APPROVALS

We are in the early stages of integration planning for the Merger, and are also preparing for the various steps in the merger approval process. We believe our Continuous Business Excellence initiative will help us in the merger integration process. One important element of the initiative is getting a better understanding of the dynamics shaping near- and long-term workforce needs, which will be beneficial in integration planning. Integration planning efforts will also focus on savings from the fuel purchasing power and joint dispatch of generating plants of the combined companies. Maintaining constructive relations with regulators, public leaders and the general public is fundamental to our business, which will be critical for obtaining needed merger approvals in a timely manner.

MATTERS IMPACTING FUTURE RESULTS AND LIQUIDITY

The impact of favorable weather on the Utilities' revenues in 2010 offset the impacts of a continuing sluggish economy and cost pressures facing the utility industry. An improving national economy may lead to greater mobility for homeowners around the country and a return of migration to the Southeast region that is more consistent with our historical levels. However, the utility industry, as a whole, faces significant cost pressures and, in the near term, lower retail electricity sales. Current economic conditions and anticipated higher expenditures (including expenditures for environmental compliance, renewable energy standards compliance and new generation and transmission facilities) may subject us to an even higher level of scrutiny from regulators and lead to a more uncertain regulatory environment. Timely regulatory recovery of costs recoverable under the Utilities' pass-through clauses (such as fuel and environmental compliance) is important to maintaining appropriate levels of liquidity.

We are preparing for an energy future that includes, among other things, carbon reductions and emerging technologies such as smart grid and plug-in electric vehicles. We believe that our balanced solution strategy provides an effective, flexible framework that will prepare us for this new energy future.

RESULTS OF OPERATIONS

In this section, we provide analysis and discussion of earnings and the factors affecting earnings on both a GAAP and non-GAAP basis. We introduce our results of operations in an overview section followed by a more detailed analysis and discussion by business segment.

We compute our non-GAAP financial measurement "Ongoing Earnings" as GAAP net income attributable to controlling interests after excluding discontinued operations and the effects of certain identified gains and charges, which are considered Ongoing Earnings adjustments. Some of the excluded gains and charges have occurred in more than one reporting period but are not considered representative of fundamental core earnings. Ongoing Earnings is not a measure calculated in accordance with GAAP, and should be viewed as a supplement to, and not a substitute for, our results of operations presented in accordance with GAAP.

A reconciliation of Ongoing Earnings to GAAP net income attributable to controlling interests follows:

(in millions except per share data)	PEC	PEF	Corporate and Other	Total	Per Share
Year ended December 31, 2010					
Ongoing Earnings	**$618**	**$462**	**$(191)**	**$889**	**$3.06**
Impairment, net of tax[a]	**(5)**	**(1)**	**–**	**(6)**	**(0.02)**
Plant retirement charge, net of tax[a]	**(1)**	**–**	**–**	**(1)**	**–**
Change in the tax treatment of the Medicare Part D subsidy	**(12)**	**(10)**	**–**	**(22)**	**(0.08)**
***Discontinued operations attributable to* controlling interests, net of tax**	**–**	**–**	**(4)**	**(4)**	**(0.01)**
Net income (loss) attributable to controlling interests[b]	**$600**	**$451**	**$(195)**	**$856**	**$2.95**
Year ended December 31, 2009					
Ongoing Earnings	$540	$460	$(154)	$846	$3.03
CVO mark-to-market	–	–	19	19	0.07
Impairment, net of tax[a]	–	–	(2)	(2)	(0.01)
Plant retirement charge, net of tax[a]	(17)	–	–	(17)	(0.06)
Cumulative prior period adjustment related to certain employee life insurance benefits, net of tax[a]	(10)	–	–	(10)	(0.04)
Discontinued operations attributable to controlling interests, net of tax	–	–	(79)	(79)	(0.28)
Net income (loss) attributable to controlling interests[b]	$513	$460	$(216)	$757	$2.71
Year ended December 31, 2008					
Ongoing Earnings	$531	$383	$(138)	$776	$2.96
Valuation allowance and related net operating loss carry forward	–	–	(3)	(3)	(0.01)
Discontinued operations attributable to controlling interests, net of tax	–	–	57	57	0.22
Net income (loss) attributable to controlling interests[b]	$531	$383	$(84)	$830	$3.17

[a] Calculated using assumed tax rate of 40 percent.

[b] Net income attributable to controlling interests is shown net of preferred stock dividend requirement of $3 million and $2 million at PEC and PEF, respectively.

Management uses the non-GAAP financial measure Ongoing Earnings (i) as a measure of operating performance to assist in comparing performance from period to period on a consistent basis and to readily view operating trends; (ii) as a measure for planning and forecasting overall expectations and for evaluating actual results against such expectations; (iii) as a measure for determining levels of incentive compensation; and (iv) in communications with our board of directors, employees, shareholders, analysts and investors concerning our financial performance. Management believes this non-GAAP measure is appropriate for understanding the business and assessing our potential future performance, because excluded items are limited to those that management believes are not representative of our fundamental core earnings (See Note 19).

Overview

FOR 2010 AS COMPARED TO 2009 AND 2009 AS COMPARED TO 2008

For the year ended December 31, 2010, our net income attributable to controlling interests was $856 million, or $2.95 per share, compared to net income attributable to controlling interests of $757 million, or $2.71 per share, for the same period in 2009. The increase as compared to prior year was primarily due to:

- favorable weather at the Utilities and
- lower loss from discontinued non-utility businesses (Ongoing Earnings adjustment).

Partially offsetting these items were:

- higher O&M expenses at the Utilities.

For the year ended December 31, 2009, our net income attributable to controlling interests was $757 million, or $2.71 per share, compared to net income attributable to controlling interests of $830 million, or $3.17 per share, for the same period in 2008. The decrease as compared to prior year was primarily due to:

- unfavorable impact of discontinued non-utility businesses (Ongoing Earnings adjustment);
- unfavorable net retail customer growth and usage at the Utilities;
- higher interest expense; and
- higher base depreciation and amortization at the Utilities

Partially offsetting these items were:

- net impact of returns earned on higher levels of nuclear and environmental cost recovery clause (ECRC) assets at PEF;
- favorable impact of interim and limited base rate relief at PEF;
- depreciation and amortization expense recognized in 2008 at PEC related to North Carolina Clean Smokestacks Act (Clean Smokestacks Act) amortization expense and depreciation expense associated with the accelerated cost-recovery program for nuclear generating assets; and
- favorable weather at the Utilities.

Progress Energy Carolinas

PEC contributed net income available to parent totaling $600 million, $513 million and $531 million in 2010, 2009 and 2008, respectively. The increase in net income available to parent for 2010 as compared to 2009 was primarily due to the favorable impact of weather, favorable allowance for funds used during construction (AFUDC) equity and favorable retail customer growth and usage, partially offset by higher O&M expenses. The decrease in net income available to parent for 2009 as compared to 2008 was primarily due to unfavorable net retail customer growth and usage, coal plant retirement charges, higher base depreciation and amortization expense and a cumulative prior period adjustment related to certain employee life insurance benefits, partially offset by Clean Smokestacks Act amortization and depreciation expense associated with the accelerated cost-recovery program for nuclear generating assets recognized in 2008 and the favorable impact of weather.

PEC contributed Ongoing Earnings of $618 million, $540 million and $531 million for 2010, 2009 and 2008, respectively. The 2010 Ongoing Earnings adjustments to net income available to parent were due to PEC recording a $12 million charge for the change in the tax treatment of the Medicare Part D subsidy, a $5 million impairment of certain miscellaneous investments and other assets, net of tax and a $1 million plant retirement adjustment, net of tax, related to PEC's decision to retire certain coal-fired generating units prior to the end of their estimated useful lives. The 2009 Ongoing Earnings adjustments to net income available to parent were due to PEC recording a $17 million plant retirement charge, net of tax, and recording a $10 million charge, net of tax, for a cumulative prior period adjustment related to certain employee life insurance benefits. Management does not consider these charges to be representative of PEC's fundamental core earnings and excluded these charges in computing PEC's Ongoing Earnings There were no Ongoing Earnings adjustments in 2008

REVENUES

The revenue tables that follow present the total amount and percentage change of total operating revenues and its components "Base Revenues" is a non-GAAP measure and is defined as operating revenues excluding clause-recoverable regulatory returns, miscellaneous revenues and fuel and other pass-through revenues. We consider Base Revenues a useful measure to evaluate PEC's electric operations because fuel and other pass-through revenues primarily represent the recovery of fuel, applicable portions of purchased power expenses and other pass-through expenses through cost-recovery clauses and, therefore, do not have a material impact on earnings. Clause-recoverable regulatory returns include the return on asset component of DSM, EE and renewable energy clause revenues We have included the reconciliation and analysis that follows as a complement to the financial information we provide in accordance with GAAP

A reconciliation of Base Revenues to GAAP operating revenues, including the percentage change by customer class and by year follows:

(in millions)

Customer Class	2010	% Change	2009	% Change	2008
Residential	**$1,242**	10 1	$1,128	1 3	$1,113
Commercial	**726**	2 7	707	(1.4)	717
Industrial	**365**	2.5	356	(10 6)	398
Governmental	**65**	10.2	59	(3 3)	61
Unbilled	**10**	–	5	–	8
Total retail base revenues	**2,408**	6.8	2,255	(1 8)	2,297
Wholesale base revenues	**305**	(1.0)	308	0.3	307
Total Base Revenues	**2,713**	5 9	2,563	(1 6)	2,604
Clause-recoverable regulatory returns	**13**	44 4	9	–	–
Miscellaneous	**138**	21 1	114	11 8	102
Fuel and other pass-through revenues	**2,058**	–	1,941	–	1,723
Total operating revenues	**$4,922**	6 4	$4,627	4 5	$4,429

PEC's total Base Revenues were $2 713 billion and $2.563 billion for 2010 and 2009, respectively The $150 million increase in Base Revenues was due primarily to the $115 million favorable impact of weather and the $36 million favorable impact of retail customer growth and usage The favorable impact of weather was driven by 15 percent higher heating-degree days and 24 percent higher cooling-degree days than 2009 Additionally, cooling degree-days were 30 percent higher and heating degree-days were 14 percent higher than normal. The favorable impact of retail customer growth and usage was driven by an increase in the average usage per retail customer and a net 10,000 increase in the average number of customers for 2010 compared to 2009

PEC's miscellaneous revenues increased $24 million in 2010, which includes $10 million higher transmission revenues driven by higher rates resulting from transmission asset additions.

PEC's total Base Revenues were $2.563 billion and $2.604 billion for 2009 and 2008, respectively The $41 million decrease in Base Revenues was due primarily to the $64 million unfavorable impact of net retail customer growth and usage, partially offset by the $23 million favorable impact of weather. The unfavorable impact of net retail customer growth and usage was driven by a decrease in the average usage per retail customer, partially offset by a net 11,000 increase in the average number of customers for 2009 compared to 2008. The favorable impact of weather was driven by higher heating- and cooling-degree days than 2008 of 3 percent and 5 percent, respectively. Additionally, cooling-degree days were 6 percent higher than normal in 2009

PEC's miscellaneous revenues increased $12 million in 2009 primarily due to higher transmission revenues.

PEC's electric energy sales in kilowatt-hours (kWh) and the percentage change by customer class and by year were as follows:

(in millions of kWh)

Customer Class	2010	% Change	2009	% Change	2008
Residential	**19,108**	11 6	17,117	0 7	17,000
Commercial	**14,184**	4.0	13,639	(2.2)	13,941
Industrial	**10,665**	2 9	10,368	(9 0)	11,388
Governmental	**1,574**	5 1	1,497	2 1	1,466
Unbilled	**172**	–	360	–	(8)
Total retail kWh sales	**45,703**	6 3	42,981	(1 8)	43,787
Wholesale	**13,999**	0.2	13,966	(2.5)	14,329
Total kWh sales	**59,702**	4.8	56,947	(2.0)	58,116

The increase in retail kWh sales in 2010 was primarily due to favorable weather, as previously discussed.

The decrease in retail kWh sales in 2009 was primarily due to a decrease in average usage per retail customer due to economic conditions in the United States PEC's industrial kWh sales decreased 9 0 percent from 2008, primarily due to reductions in textile manufacturing in the Carolinas as a result of global competition and domestic consolidation as well as a downturn in the lumber and building materials segment as a result of declines in construction Wholesale kWh sales decreased for 2009 primarily due to decreased excess generation sales resulting from unfavorable market dynamics

EXPENSES

Fuel and Purchased Power

Fuel and purchased power costs represent the costs of generation, which include fuel purchases for generation and energy purchased in the market to meet customer load. Fuel and a portion of purchased power expenses are recovered primarily through cost-recovery clauses, and as such, changes in these expenses do not have a material impact on earnings. The difference between fuel and purchased power costs incurred and associated fuel revenues that are subject to recovery is deferred for future collection from or refund to customers and is recorded as deferred fuel expense, which is included in fuel used in electric generation on the Consolidated Statements of Income.

Fuel and purchased power expenses totaled $1.988 billion for 2010, which represents a $79 million increase compared to 2009. This increase was primarily due to the $324 million impact of higher system requirements resulting from favorable weather and the impact of nuclear plant outages on PEC's generation mix, partially offset by $151 million decreased current year fuel costs driven by lower coal and gas prices and $104 million lower deferred fuel expense. The decrease in deferred fuel expense was primarily due to higher fuel and purchased power expenses and lower fuel rates in North Carolina

Fuel and purchased power expenses totaled $1.909 billion for 2009, which represents a $217 million increase compared to 2008. This increase was primarily due to $248 million higher deferred fuel expense and the $86 million net impact of higher fuel costs driven by higher coal prices, partially offset by $128 million impact of lower system requirements. The increase in deferred fuel expense was primarily due to the implementation of higher fuel rates in North Carolina

Operation and Maintenance

O&M expense was $1 158 billion for 2010, which represents an $86 million increase compared to 2009. This increase was primarily due to $78 million higher nuclear plant outage and maintenance costs, $11 million higher employee benefits expense driven by revised actuarial estimates, $7 million higher emission expense primarily due to sales of nitrogen oxides (NOx) emission allowances in the prior year and the $2 million impairment of other assets, partially offset by $27 million lower coal plant retirement charges. The higher nuclear plant outage and maintenance costs are primarily due to three nuclear refueling and maintenance outages in 2010 compared to two in 2009 as well as extended outages and more emergent work in 2010 as compared to 2009. Management does not consider impairments and charges recognized for the retirement of generating units prior to the end of their estimated useful lives to be representative of PEC's fundamental core earnings. Therefore, the impacts of these items are excluded in computing PEC's Ongoing Earnings. Certain O&M expense such as the cost of reagents for emission control equipment and wheeling charges are recoverable through cost-recovery clauses. In aggregate, O&M expenses primarily recoverable through base rates increased $69 million compared to the same period in 2009.

O&M expense was $1 072 billion for 2009, which represents a $42 million increase compared to 2008. This increase was primarily due to coal plant retirement charges of $28 million, higher employee benefits expense of $12 million and storm costs of $9 million, partially offset by lower emission allowance expense of $13 million resulting from lower system requirements, changes in generation mix and sales of NOx allowances. As previously discussed, coal plant retirement charges are excluded in computing PEC's Ongoing Earnings. Also, as previously discussed, certain O&M expenses are recoverable through cost-recovery clauses. In aggregate, O&M expenses primarily recoverable through base rates increased $29 million compared to the same period in 2008

Depreciation, Amortization and Accretion

Depreciation, amortization and accretion expense was $479 million, $470 million and $518 million for 2010, 2009 and 2008, respectively. The $48 million decrease in 2009 compared to 2008 was primarily attributable to the $52 million of depreciation associated with the accelerated cost-recovery program for nuclear generating assets recognized in 2008 and the $15 million of Clean Smokestacks Act amortization recognized in 2008, partially offset by the $21 million impact of depreciable asset base increases. The North Carolina jurisdictional aggregate minimum amount of accelerated cost recovery has been met, and the South Carolina jurisdictional obligation was terminated by the SCPSC. PEC does not anticipate recording additional accelerated depreciation in the North Carolina jurisdiction, but will record depreciation over the remaining useful lives of the assets. In accordance with a regulatory order, PEC ceased to amortize Clean Smokestacks Act compliance costs, but will record depreciation over the useful lives of the assets.

Taxes Other Than on Income

Taxes other than on income was $218 million for 2010, which represents an $8 million increase compared to 2009. This increase was primarily due to an increase in gross receipts taxes due to higher operating revenues. Taxes other than on income was $210 million for 2009, which represents a $12 million increase compared to 2008. The increase was primarily due to an increase in gross receipts taxes due to higher operating revenues and higher property tax rates. Gross receipts taxes are collected from customers and recorded as revenues and then remitted to the applicable taxing authority. Therefore, these taxes have no material impact on earnings.

Other

Other operating expense was an expense of $8 million in 2010 and income of $5 million in 2008. The $8 million expense in 2010 was primarily due to the $7 million impairment of certain miscellaneous investments. The $5 million income in 2008 was primarily due to gain on land sales. Management does not consider impairments to be representative of PEC's fundamental core earnings. Therefore, the impacts of impairments are excluded in computing PEC's Ongoing Earnings.

Total Other Income, Net

Total other income, net was $67 million for 2010, which represents a $47 million increase compared to 2009. This increase was primarily due to favorable AFUDC equity of $31 million resulting from increased construction project costs and a $16 million cumulative prior period adjustment charge recorded in 2009 related to certain employee life insurance benefits. The prior period adjustment is not material to 2009 or previously issued financial statements. Management determined that the adjustment should be an exclusion from PEC's 2009 Ongoing Earnings.

Total other income, net was $20 million for 2009, which represents a $23 million decrease compared to 2008. This decrease was primarily due to the previously discussed $16 million cumulative prior period adjustment related to certain employee life insurance benefits as well as lower interest income resulting from lower average eligible deferred fuel balances.

Total Interest Charges, Net

Total interest charges, net was $186 million, $195 million and $207 million for 2010, 2009 and 2008, respectively. The $9 million decrease in 2010 compared to 2009 was primarily due to $7 million favorable AFUDC debt related to increased construction project costs. The $12 million decrease in 2009 compared to 2008 was primarily due to lower interest rates on variable rate debt, partially offset by higher interest as a result of higher average debt outstanding.

Income Tax Expense

Income tax expense was $350 million, $277 million and $298 million in 2010, 2009 and 2008, respectively. The $73 million increase in 2010 compared to 2009 was primarily due to the $64 million impact of higher pre-tax income and the $12 million impact of the change in the tax treatment of the Medicare Part D subsidy resulting from federal health care reform enacted earlier in 2010 (See Note 16). Management does not consider the change in the tax treatment of the Medicare Part D subsidy to be representative of PEC's fundamental core earnings, and therefore, the amount is excluded in computing PEC's Ongoing Earnings. The $21 million income tax expense decrease in 2009 compared to 2008 was primarily due to the impact of lower pre-tax income and the $5 million favorable tax benefit related to a deduction triggered by the transfer of previously funded amounts from nonqualified NDT funds to qualified NDT funds.

Progress Energy Florida

PEF contributed net income available to parent totaling $451 million, $460 million and $383 million in 2010, 2009 and 2008, respectively. The decrease in net income available to parent for 2010 as compared to 2009 was primarily due to unfavorable AFUDC equity and higher O&M expenses, partially offset by the favorable impact of weather and higher clause-recoverable regulatory returns. The increase in net income available to parent for 2009 compared to 2008 was primarily due to higher clause-recoverable regulatory returns, the favorable impact of interim and limited base rate relief and the favorable impact of weather, partially offset by the unfavorable impact of retail customer growth and usage, higher base depreciation and amortization expense, and higher O&M

PEF contributed Ongoing Earnings of $462 million, $460 million and $383 million in 2010, 2009 and 2008, respectively. The 2010 Ongoing Earnings adjustments to net income available to parent were due to PEF recording a $10 million charge for the change in the tax treatment of the Medicare part D subsidy and a $1 million impairment of other assets, net of tax. Management does not consider these charges to be representative of PEF's fundamental core earnings and excluded these charges in computing PEF's Ongoing Earnings. There were no Ongoing Earnings adjustments in 2009 or 2008.

REVENUES

The revenue tables that follow present the total amount and percentage change of total operating revenues and its components. "Base Revenues" is a non-GAAP measure and is defined as operating revenues excluding clause-recoverable regulatory returns, miscellaneous revenues and fuel and other pass-through revenues. We consider Base Revenues a useful measure to evaluate PEF's electric operations because fuel and other pass-through revenues primarily represent the recovery of fuel, applicable portions of purchased power and other pass-through expenses through cost-recovery clauses and, therefore, do not have a material impact on earnings. Clause-recoverable regulatory returns include the revenues associated with the return on asset component of nuclear cost-recovery and ECRC revenues. We have included the reconciliation and analysis that follows as a complement to the financial information we provide in accordance with GAAP.

A reconciliation of Base Revenues to GAAP operating revenues, including the percentage change by customer class and by year follows:

(in millions)

Customer Class	2010	% Change	2009	% Change	2008
Residential	**$1,045**	10.5	$946	5.9	$893
Commercial	**359**	5.6	340	3.7	328
Industrial	**75**	4.2	72	(5.3)	76
Governmental	**92**	5.7	87	6.1	82
Unbilled	**17**	–	9	–	(1)
Total retail base revenues	**1,588**	9.2	1,454	5.5	1,378
Wholesale base revenues	**160**	(22.7)	207	5.1	197
Total Base Revenues	**1,748**	5.2	1,661	5.5	1,575
Clause-recoverable regulatory returns	**173**	98.9	87	690.9	11
Miscellaneous	**216**	14.3	189	6.2	178
Fuel and other pass-through revenues	**3,117**	–	3,314	–	2,967
Total operating revenues	**$5,254**	0.1	$5,251	11.0	$4,731

PEF's total Base Revenues were $1.748 billion and $1.661 billion for 2010 and 2009, respectively. The $87 million increase in Base Revenues was due primarily to the $88 million favorable impact of weather and the $50 million impact of increased retail base rates associated with the repowered Bartow Plant, partially offset by $47 million lower wholesale base revenues and the $5 million unfavorable impact of net retail customer growth and usage. The favorable impact of weather was driven by 89 percent higher heating-degree days than 2009. Additionally, heating-degree days were 124 percent higher than normal. The lower wholesale base revenues were primarily due to an amended contract with a major customer. The unfavorable impact of net retail customer growth and usage was driven by a decrease in the average usage per retail customer, partially offset by a net 4,000 increase in the average number of customers for 2010 compared to 2009.

PEF's clause-recoverable regulatory returns increased $86 million in 2010 primarily due to higher returns on ECRC assets due to placing approximately $1 billion of Clean Air Interstate Rule (CAIR) projects into service in late 2009 and May 2010.

PEF's miscellaneous revenues increased $27 million in 2010 primarily due to $20 million higher transmission revenues driven by favorable weather and $8 million higher right-of-use revenues related to the use of easements and land.

PEF's total Base Revenues were $1.661 billion and $1.575 billion for 2009 and 2008, respectively. The $86 million increase in Base Revenues was due primarily to the $79 million favorable impact of interim and limited base rate relief and the $36 million favorable impact of weather, partially offset by the $41 million unfavorable impact of retail customer growth and usage. The interim and limited base rate relief was approved by the FPSC effective July 1, 2009. Of the $79 million interim and limited base rate relief, $7 million related to interim rate relief, which was in effect for only 2009, and $72 million related to limited rate relief, which continued in accordance with the base rate proceeding with an annual revenue requirement of $132 million. The favorable impact of weather was primarily driven by 14 percent higher heating-degree days and 6 percent higher cooling-degree days than 2008. Heating-degree days were 4 percent lower than normal in 2009 and 16 percent lower than normal in 2008. In addition to lower average usage per customer, PEF's average number of customers for 2009, compared to 2008, decreased a net 8,000 customers.

PEF's clause-recoverable regulatory returns increased $76 million in 2009 primarily due to higher revenues related to nuclear cost recovery and ECRC assets of $61 million and $15 million, respectively. As a result of an FPSC regulatory order effective in January 2009, PEF is allowed to earn returns on certain costs related to nuclear construction.

PEF's electric energy sales in kWh and the percentage change by customer class and by year were as follows:

(in millions of kWh)

Customer Class	**2010**	% Change	2009	% Change	2008
Residential	**20,524**	5.8	19,399	0.4	19,328
Commercial	**11,896**	0.1	11,884	(2.1)	12,139
Industrial	**3,219**	(2.0)	3,285	(13.2)	3,786
Governmental	**3,286**	0.9	3,256	(1.4)	3,302
Unbilled	**458**	–	131	–	(99)
Total retail kWh sales	**39,383**	3.8	37,955	(1.3)	38,456
Wholesale	**3,857**	0.6	3,835	(43.1)	6,734
Total kWh sales	**43,240**	3.5	41,790	(7.5)	45,190

The increase in retail kWh sales in 2010 was primarily due to favorable weather as previously discussed.

Wholesale kWh sales have increased in 2010 primarily due to favorable weather, which resulted in increased deliveries under a certain capacity contract that has high demand and low energy charges. Despite the increase in sales, wholesale base revenues have decreased primarily due to a contract amendment as previously discussed.

Wholesale base revenues increased in 2009, despite decreased wholesale kWh sales in 2009, primarily due to committed capacity revenues. The wholesale kWh sales decreased primarily due to market conditions in which wholesale customers fulfilled a portion of their system requirements from other sources. Many of the new and amended capacity contracts entered into in 2008 expired by the end of 2009.

Retail base revenues increased in 2009, despite a decrease in kWh sales for the same period, primarily due to the impact of interim and limited base rate relief approved by the FPSC in 2009.

EXPENSES

Fuel and Purchased Power

Fuel and purchased power costs represent the costs of generation, which include fuel purchases for generation and energy purchased in the market to meet customer load. Fuel and a portion of purchased power expenses are recovered primarily through cost-recovery clauses, and as such, changes in these expenses do not have a material impact on earnings. The difference between fuel and purchased power costs incurred and associated fuel revenues that are subject to recovery is deferred for future collection from or refund to customers and is recorded as deferred fuel expense, which is included in fuel used in electric generation on the Consolidated Statements of Income.

Fuel and purchased power expenses totaled $2.591 billion in 2010, which represents a $163 million decrease compared to 2009. This decrease was primarily due to lower deferred fuel expense of $520 million resulting from lower fuel rates, which assumed the Crystal River Unit No. 3 Nuclear Plant (CR3) outage was completed in 2009, partially offset by increased current year fuel and purchased power costs of $189 million and an increase in the recovery of deferred capacity costs of $167 million. The increased current year fuel and purchased power costs were primarily driven by higher system requirements resulting from favorable weather and CR3 replacement power costs net of insurance recovery. The increase in the recovery of deferred capacity costs was primarily due to increased rates and higher system requirements due to favorable weather.

Fuel and purchased power expenses totaled $2.754 billion in 2009, which represents a $126 million increase compared to 2008. This increase was primarily due to higher deferred fuel expense of $467 million driven by the implementation of new fuel rates, partially offset by $164 million lower interchange costs, a decrease in the recovery of deferred capacity costs of $91 million and decreased 2009 fuel costs of $70 million, all resulting from lower system requirements.

Operation and Maintenance

O&M expense was $912 million in 2010, which represents a $73 million increase compared to 2009. O&M expense increased primarily due to the $34 million prior-year pension deferral in accordance with an FPSC order; $22 million higher employee benefits expense driven by revised actuarial estimates; $18 million higher Energy Conservation Cost Recovery Clause (ECCR) costs driven by higher deferred expenses due to higher rates, increased energy sales and increased customer usage of load management programs and home improvement incentives; the $11 million prior-year impact of a change in vacation benefits policy; and the $2 million impairment of other assets. These increases are partially offset by $22 million favorable ECRC costs due to lower NOx allowances used resulting from a scrubber placed in service in December 2009. The ECCR and ECRC expenses are recovered through cost-recovery clauses and, therefore, have no material impact on earnings. Management does not consider impairments to be representative of PEF's fundamental core earnings. Therefore, the impacts of impairments are excluded in computing PEF's Ongoing Earnings. In aggregate, O&M expenses primarily recoverable through base rates increased $80 million compared to the same period in 2009.

O&M expense was $839 million in 2009, which represents a $26 million increase compared to 2008. The increase was primarily due to $63 million higher ECRC and ECCR costs primarily due to an increase in current year rates for recovery of emission allowances, higher pension costs of $24 million and higher nuclear plant outage and maintenance costs of $14 million, partially offset by lower storm cost recovery of $66 million due to the surcharge that ended in July 2008 and the impact of a change in our vacation benefits policy of $11 million. The ECRC and ECCR expenses and replenishment of storm damage reserve are recovered through cost-recovery clauses and, therefore, have no material impact on earnings. Pension costs were higher due to a $20 million pension credit in 2008. Substantially all of 2009's pension expense was deferred in accordance with an FPSC order. In aggregate, O&M expenses recoverable through base rates increased $25 million compared to the same period in 2008.

Depreciation, Amortization and Accretion

Depreciation, amortization and accretion expense was $426 million for 2010, which represents a $76 million decrease compared to 2009. Depreciation, amortization and accretion expense decreased primarily due to a reduction in the cost of removal component of amortization expense of $60 million in accordance with the base rate settlement agreement (See Note 7C), the lower depreciation rate impact of $43 million and other adjustments required in the base rate settlement agreement of $13 million, partially offset by the $46 million impact of depreciable asset base increases. The lower depreciation rate resulted from a depreciation study in conjunction with the 2009 base rate case. In accordance with PEF's base rate settlement agreement, PEF will have the discretion to reduce the cost of removal component of amortization expense in 2011 and 2012, subject to limitations (See Note 7C).

Depreciation, amortization and accretion expense was $502 million for 2009, which represents an increase of $196 million compared to 2008, primarily due to higher nuclear cost-recovery amortization of $155 million. In aggregate, depreciation, amortization and accretion expenses recoverable through base rates and the ECRC increased $31 million compared to 2008, primarily due to depreciable asset base increases

Taxes Other Than on Income

Taxes other than on income was $362 million for 2010, which represents a $15 million increase compared to 2009. This increase was primarily due to higher property taxes of $14 million resulting primarily from placing the repowered Bartow Plant in service in June 2009. Taxes other than on income was $347 million for 2009, which represents an increase of $38 million compared to 2008, primarily due to an increase in gross receipts and franchise taxes due to higher operating revenues Gross receipts and franchise taxes are collected from customers and recorded as revenues and then remitted to the applicable taxing authority Therefore, these taxes have no material impact on earnings.

Other

Other operating expense was an expense of $4 million and $7 million in 2010 and 2009, respectively, and income of $5 million in 2008. The $7 million expense in 2009 was primarily due to regulatory disallowance of fuel costs. ~~The $5 million income in 2008 was primarily due to gain~~ on land sales.

Total Other Income, Net

Total other income, net was $28 million for 2010, which represents a $72 million decrease compared to 2009. This decrease was primarily due to $63 million unfavorable AFUDC equity related to lower eligible construction project costs, primarily due to placing the repowered Bartow Plant and CAIR projects into service in mid- and late 2009, respectively.

Total other income, net was $100 million for 2009, which represents a $6 million increase compared to 2008. This increase was primarily due to the $16 million of investment gains on certain employee benefit trusts resulting from improved market conditions, partially offset by $5 million lower interest income resulting from lower short-term investment balances and $4 million unfavorable AFUDC equity related to lower eligible construction project costs, primarily due to placing the repowered Bartow Plant into service in 2009.

Total Interest Charges, Net

Total interest charges, net was $258 million for 2010, which represents a $27 million increase compared to 2009. This increase was primarily due to $14 million unfavorable AFUDC debt related to costs associated with eligible construction projects as discussed above and $16 million higher interest driven by higher average long-term debt outstanding.

Total interest charges, net was $231 million in 2009, which represents an increase of $23 million compared to 2008. The increase in interest charges was primarily due to higher interest as a result of higher average debt outstanding.

Income Tax Expense

Income tax expense was $276 million, $209 million and $181 million in 2010. 2009 and 2008, respectively. The $67 million income tax expense increase in 2010 compared to 2009 was primarily due to the $24 million impact of the unfavorable AFUDC equity discussed above, the $23 million impact of higher pre-tax income and the $10 million impact of the change in the tax treatment of the Medicare Part D subsidy resulting from federal health care reform enacted earlier in 2010 (See Note 16). AFUDC equity is excluded from the calculation of income tax ~~expense. As previously discussed, management does not~~ consider the change in the tax treatment of the Medicare Part D subsidy to be representative of PEF's fundamental core earnings. Accordingly, the impact of the change in the tax treatment of the Medicare Part D subsidy is excluded in computing PEF's Ongoing Earnings.

The $28 million income tax expense increase in 2009 compared to 2008 was primarily due to the $40 million impact of higher pre-tax income compared to the prior year, partially offset by the $11 million impact of the favorable tax benefit related to a deduction triggered by the transfer of previously funded amounts from the nonqualified NDT fund to the qualified NDT fund.

Corporate and Other

The Corporate and Other segment primarily includes the operations of the Parent, PESC and other miscellaneous nonregulated businesses (Corporate and Other) that do not separately meet the quantitative disclosure requirements as a reportable business segment. A discussion of the items excluded from Corporate and Other's Ongoing Earnings is included in the detailed discussion and analysis that follows. Management believes the excluded items are not representative of our fundamental core earnings. The following table reconciles Corporate and Other's Ongoing Earnings to GAAP net income attributable to controlling interests:

(in millions)	**2010**	Change	2009	Change	2008
Other interest expense	**$(298)**	$(52)	$(246)	$(31)	$(215)
Other income tax benefit	**116**	19	97	6	91
Other expense	**(9)**	(4)	(5)	9	(14)
Ongoing Earnings	**(191)**	(37)	(154)	(16)	(138)
CVO mark-to-market	–	(19)	19	19	–
Impairment, net of tax	–	2	(2)	(2)	–
Valuation allowance and related net operating loss carry forward	–	–	–	3	(3)
Discontinued operations attributable to controlling interests, net of tax	**(4)**	75	(79)	(136)	57
Net loss attributable to controlling interests	**$(195)**	$21	$(216)	$(132)	$(84)

OTHER INTEREST EXPENSE

Other interest expense was $298 million, $246 million and $215 million for 2010, 2009 and 2008, respectively. The $52 million increase for 2010 compared to 2009 and the $31 million increase for 2009 compared to 2008 were primarily due to higher average debt outstanding at the Parent.

OTHER INCOME TAX BENEFIT

Other income tax benefit was $116 million, $97 million and $91 million for 2010, 2009 and 2008, respectively. The $19 million increase for 2010 compared to 2009 was primarily due to the favorable tax impact of higher pre-tax loss. The $6 million increase for 2009 compared to 2008 was primarily due to the favorable tax impact of higher pre-tax loss, partially offset by the unfavorable impact at the Corporate level resulting from the deductions taken by the Utilities related to NDT funds (See "Progress Energy Carolinas – Income Tax Expense" and "Progress Energy Florida – Income Tax Expense").

OTHER EXPENSE

Other expense was $9 million, $5 million and $14 million for 2010, 2009 and 2008, respectively. The $9 million change for 2009 compared to 2008 was primarily due to investment gains on certain employee benefit trusts resulting from improved financial market conditions in 2009.

ONGOING EARNINGS ADJUSTMENTS

CVO Mark-to-Market

Progress Energy issued 98.6 million contingent value obligations (CVOs) in connection with the acquisition of Florida Progress Corporation (Florida Progress) in 2000. Each CVO represents the right of the holder to receive contingency payments based on the performance of four synthetic fuels facilities purchased by subsidiaries of Florida Progress in October 1999. The payments are based on the net after-tax cash flows the facilities generate (See Note 15). The CVOs had a fair value of $15 million at December 31, 2010 and 2009 and $34 million at December 31, 2008. Progress Energy recorded unrealized gains of $19 million in 2009 to record the change in fair value of the CVOs, which had average unit prices of $0.16 at December 31, 2010 and 2009 and $0.35 at December 31, 2008. The unrealized gain/loss recognized due to changes in fair value is recorded in other, net on the Consolidated Statements of Income. Because Progress Energy is unable to predict the changes in the fair value of the CVOs, management does not consider this adjustment to be representative of our fundamental core earnings.

Impairment, Net of Tax

We recorded a $3 million impairment of investments in 2009. The impairment was recorded in other, net on the Consolidated Statements of Income. Management does not consider impairments to be representative of our fundamental core earnings.

Valuation Allowance and Related Net Operating Loss Carry Forward

We previously recorded a deferred tax asset for a state net operating loss carry forward upon the sale of our nonregulated generating facilities and energy marketing and trading operations. In 2008, we recorded an additional $6 million deferred tax asset related to the state net operating loss carry forward due to a change in estimate based on 2007 tax return filings. We also evaluated the total state net operating loss carry forward and recorded a partial valuation allowance of $9 million, which more than offset the change in estimate. Management does not consider net valuation allowances to be representative of our fundamental core earnings.

Discontinued Operations Attributable to Controlling Interests, Net of Tax

We completed our business strategy of divesting of nonregulated businesses to reduce our business risk and focus on core operations of the Utilities. See Note 3 for additional information related to discontinued operations. We recognized $4 million and $79 million of loss from discontinued operations attributable to controlling interests, net of tax, for 2010 and 2009, respectively and $57 million of income from discontinued operations attributable to controlling interests, net of tax for 2008. Management does not consider operating results of discontinued operations to be representative of our fundamental core earnings

In 2009, we recognized $79 million of expense from discontinued operations attributable to controlling interests, net of tax, which was primarily due to a jury delivering a verdict in a lawsuit against Progress Energy and a number of our subsidiaries and affiliates previously engaged in coal-based solid synthetic fuels operations (See Note 22D). As a result, we recorded an after-tax charge of $74 million to discontinued operations, which was net of a previously recorded indemnification liability.

In 2008, we recognized $57 million of income from discontinued operations attributable to controlling interests, net of tax, which was comprised primarily of $49 million after-tax gains on sales of our coal terminals and docks in West Virginia and Kentucky and our remaining coal mining businesses.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepared our Consolidated Financial Statements in accordance with GAAP. In doing so, we made certain estimates that were critical in nature to the results of operations. The following discusses those significant accounting policies and estimates that may have a material impact on our financial results and are subject to the greatest amount of subjectivity. We have discussed the development and selection of these critical accounting policies and estimates with the Audit and Corporate Performance Committee (Audit Committee) of our board of directors.

Impact of Utility Regulation

Our regulated utilities segments are subject to regulation that sets the prices (rates) we are permitted to charge customers based on the costs that regulatory agencies determine we are permitted to recover. At times, regulators permit the future recovery through rates of costs that would be currently charged to expense by a nonregulated company. The application of GAAP for regulated operations to this ratemaking process results in deferral of expense recognition and the recording of regulatory assets based on anticipated future cash inflows. As a result of the different ratemaking processes in each state in which we operate, a significant amount of regulatory assets has been recorded. We continually review these regulatory assets to assess their ultimate recoverability within the approved regulatory guidelines. Impairment risk associated with these assets relates to potentially adverse legislative, judicial or regulatory actions in the future. Additionally, the state regulatory agencies' ratemaking processes often provide flexibility in the manner and timing of the depreciation of property, nuclear decommissioning costs and amortization of the regulatory assets.

Our conclusion that the Utilities meet the criteria to apply GAAP for regulated operations is a material assumption in the presentation and evaluation of our financial position and results of operations. The Utilities' ability to continue to meet the criteria for application of GAAP for regulated operations could be affected in the future by actions of our regulators, competitive forces and restructuring in the electric utility industry. State regulators may not allow the Utilities to increase future retail rates required to recover their operating costs or provide an adequate return on investment, or in the manner requested. State regulators may also seek to reduce or freeze retail rates. Such events occurring over a sustained period could result in the Utilities no longer meeting the criteria for the continued application of GAAP for regulated operations. In the event that GAAP for regulated operations no longer applies to one or both of the Utilities, we are subject to the risk that regulatory assets and liabilities would be eliminated and utility plant assets may be impaired, unless an appropriate recovery mechanism was provided. Additionally, our financial condition, cash flows and results of operations may be adversely impacted. See Note 7 for additional information related to the impact of utility regulation on our operations.

We evaluate the carrying value of long-lived assets and intangible assets with definite lives for impairment whenever impairment indicators exist. If an impairment indicator exists, the asset group held and used 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 if the asset group is to be disposed of, an impairment loss is recognized for the difference between the carrying value and the fair value of the asset group. Our exposure to potential impairment losses for utility plant, net is mitigated by the fact that our regulated ratemaking process generally allows for recovery of our investment in utility plant plus an allowed return on the investment, as long as the costs are prudently incurred. The carrying values of our total utility plant, net at December 31, 2010 and 2009, was $21 240 billion and $19.733 billion, respectively

As discussed in Note 13, our financial assets and liabilities are primarily comprised of derivative financial instruments and marketable debt and equity securities held in our nuclear decommissioning trusts. Substantially all unrealized gains and losses on derivatives and all unrealized gains and losses on nuclear decommissioning trust investments are deferred as regulatory liabilities or assets consistent with ratemaking treatment. Therefore, the impact of fair value measurements from recurring financial assets and liabilities on our earnings is not significant.

Asset Retirement Obligations

Asset Retirement Obligations (AROs) represent legal obligations associated with the retirement of certain tangible long-lived assets. The present values of retirement costs for which we have a legal obligation are recorded as liabilities with an equivalent amount added to the asset cost and depreciated over the useful life of the associated asset. The liability is then accreted over time by applying an interest method of allocation to the liability.

AROs have no impact on our income as the effects are offset by the establishment of regulatory assets and regulatory liabilities in order to reflect the ratemaking treatment of the related costs.

Our total AROs at December 31, 2010, were $1.200 billion. We calculated the present value of our AROs based on estimates which are dependent on subjective factors such as management's estimated retirement costs, the timing of future cash flows and the selection of appropriate discount and cost escalation rates. These underlying assumptions and estimates are made as of a point in time and are subject to change. These changes could materially affect the AROs, although changes in such estimates should not affect earnings, because these costs are expected to be recovered through rates.

Nuclear decommissioning AROs represent 95 percent of Progress Energy's total AROs at December 31, 2010. To determine nuclear decommissioning AROs, we utilize periodic site-specific cost studies in order to estimate the nature, cost and timing of planned decommissioning activities for our nuclear plants. Our regulators require updated cost estimates for nuclear decommissioning every five years. These cost studies 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. Changes in PEC's and PEF's nuclear decommissioning site-specific cost estimates or the use of alternative cost escalation or discount rates could be material to the nuclear decommissioning liabilities recognized.

PEC obtained updated cost studies for its nuclear plants in 2009, using 2009 cost factors, which PEC filed with the NCUC in 2010. If the site-specific cost estimates increased by 10 percent, PEC's AROs would have increased by $77 million. If the inflation adjustment increased 25 basis points, PEC's AROs would have increased by $169 million. Similarly, an increase in the discount rate of 25 basis points would have decreased PEC's AROs by $56 million.

PEF obtained an updated cost study for its nuclear plant in 2008, using 2008 cost factors, which PEF filed with the FPSC in 2009 as part of PEF's base rate filing. As discussed in Note 4C, the FPSC deferred review of PEF's nuclear decommissioning study from the rate case to be addressed in 2010 in order for FPSC staff to assess PEF's study in combination with other utilities anticipated to submit nuclear decommissioning studies in 2010. PEF was not required to prepare a new site-specific nuclear decommissioning study in 2010; however, PEF was required to update the 2008 study with the most currently available escalation rates in 2010, which was filed with the FPSC in December 2010. If the site-specific cost estimates increased by 10 percent, PEF's AROs would have increased by $32 million. If the inflation adjustment increased 25 basis points, PEF's AROs would have increased by $25 million. Similarly, an increase in the discount rate of 25 basis points would have decreased PEF's AROs by $21 million.

Goodwill

As discussed in Note 8, goodwill is required to be tested for impairment at least annually and more frequently when indicators of impairment exist. All of our goodwill is allocated to our utility reporting units and our goodwill impairment tests are performed at the utility reporting unit level. The carrying amounts of goodwill at December 31, 2010 and 2009, for the PEC and PEF reporting units were $1 922 billion and $1.733 billion, respectively

As discussed in Note 1D, in October 2010 we prospectively changed our annual goodwill testing date from

April 1 to October 31 to better align our impairment testing procedures with the completion of our annual financial and strategic planning process. As a result, during 2010, we tested our goodwill for impairment as of October 31, 2010 and April 1, 2010, and concluded there was no impairment of the carrying value of the goodwill. If the estimated fair values of PEC and PEF on those dates had been lower by 10 percent, there still would be no impact on the reported value of their goodwill. In addition, based on the results of impairment tests performed in April 2009 and April 2008, we concluded there was no impairment of the carrying value of the goodwill in the prior periods presented in the consolidated financial statements. This change in accounting principle did not accelerate, delay, avoid, or cause a goodwill impairment charge.

We calculate the fair value of our utility reporting units by considering various factors, including valuation studies based primarily on income and market approaches. More emphasis is applied to the income approach as substantially all of the Utilities' cash flows are from rate-regulated operations. In such environments, revenue requirements are adjusted periodically by regulators based on factors including levels of costs, sales volumes and costs of capital. Accordingly, the Utilities operate to some degree with a buffer from the direct effects, positive or negative, of significant swings in market or economic conditions.

The income approach uses discounted cash flow analyses to determine the fair value of the utility reporting units. The estimated future cash flows from operations are based on the Utilities' business plans, which reflect management's assumptions related to customer usage based on internal data and economic data obtained from third-party sources. The business plans assume the occurrence of certain events in the future, such as the outcome of future rate filings, future approved rates of returns on equity, the timing of anticipated significant future capital investments, the anticipated earnings and returns related to such capital investments, continued recovery of cost of service and the renewal of certain contracts. Management also determines the appropriate discount rate for the utility reporting units based on the weighted average cost of capital for each utility, which takes into account both the cost of equity and pre-tax cost of debt. As each utility reporting unit has a different risk profile based on the nature of its operations, the discount rate for each reporting unit may differ.

The market approach uses implied market multiples derived from comparable peer utilities and market transactions to estimate the fair value of the utility reporting units. Peer utilities are evaluated based on percentage of revenues generated by regulated utility operations, percentage of revenues generated by electric operations, generation mix, including coal, gas, nuclear and other resources, market capitalization as of the valuation date, and geographic location. Comparable market transactions are evaluated based on the availability of financial transaction data and the nature and geographic location of the businesses or assets acquired, including whether the target company had a significant electric component. The selection of comparable peer utilities and market transactions, as well as the appropriate multiples from within a reasonable range, is a matter of professional judgment.

The calculations in both the income and market approaches are highly dependent on subjective factors such as management's estimate of future cash flows, the selection of appropriate discount and growth rates from a marketplace participant's perspective, and the selection of peer utilities and marketplace transactions for comparative valuation purposes. These underlying assumptions and estimates are made as of a point in time. If these assumptions change or should the actual outcome of some or all of these assumptions differ significantly from the current assumptions, the fair value of the utility reporting units could be significantly different in future periods, which could result in a future impairment charge to goodwill.

As an overall test of the reasonableness of the estimated fair values of the utility reporting units, we compared their combined fair value estimate to Progress Energy's market capitalization as of October 31, 2010 and April 1, 2010. The analyses confirmed that the fair values were reasonably representative of market views when applying a reasonable control premium to the market capitalization.

We monitor for events or circumstances, including financial market conditions and economic factors, that may indicate an interim goodwill impairment test is necessary. We would perform an interim impairment test should any events occur or circumstances change that would more likely than not reduce the fair value of a utility reporting unit below its carrying value. As a result of the Merger Agreement discussed within MD&A – "Introduction – Merger" and in Note 25, we considered whether an interim goodwill impairment test was necessary. Based upon reasonable allocations of the Merger consideration to PEC and PEF, we concluded their fair values exceeded their carrying values, and no interim impairment test was necessary.

Unbilled Revenue

As discussed in Note 1, we recognize electric utility revenues as service is rendered to customers. Operating revenues include unbilled electric utilities base revenues, primarily related to retail base revenues, earned when service has been delivered but not billed by the end of the accounting period. The determination of electricity sales to individual customers is based on meter readings, which occur on a systematic basis throughout the month. At the end of each month, electricity delivered to customers since the last meter reading is estimated and a corresponding accrual for the electric utility revenues associated with unbilled sales is recognized. Unbilled retail revenues are estimated by applying a weighted average revenue/kWh for all customer classes to the number of estimated kWh delivered but not billed. The calculation of unbilled revenue is affected by factors that include fluctuations in energy demand for the unbilled period, seasonality, weather, customer usage patterns, price in effect for each customer class and estimated transmission and distribution line losses. At December 31, 2010 and 2009, amounts recorded as receivables on the Consolidated Balance Sheets related to unbilled revenues were $223 million and $193 million, respectively

Income Taxes

Judgment and the use of estimates are required in developing the provision for income taxes and reporting of tax-related assets and liabilities. As discussed in Note 14, deferred income tax assets and liabilities represent the future effects on income taxes for temporary differences between the bases of assets and liabilities for financial reporting and tax purposes. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The probability of realizing deferred tax assets is based on forecasts of future taxable income and the availability of tax-planning strategies that can be implemented, if necessary, to realize deferred tax assets. We establish a valuation allowance when it is more likely than not that all, or a portion of, a deferred tax asset will not be realized

The interpretation of tax laws involves uncertainty. Ultimate resolution of income tax matters may result in favorable or unfavorable impacts to net income and cash flows, and adjustments to tax-related assets and liabilities could be material. In accordance with GAAP, the uncertainty and judgment involved in the determination and filing of income taxes are accounted for 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: 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.

Pension Costs

As discussed in Note 16A, we maintain qualified noncontributory defined benefit retirement (pension) plans. We also have supplementary defined benefit pension plans that provide benefits to higher-level employees. Our reported costs are dependent on numerous factors resulting from actual plan experience and assumptions of future experience. For example, such costs are impacted by employee demographics, changes made to plan provisions, actual plan asset returns and key actuarial assumptions, such as expected long-term rates of return on plan assets and discount rates used in determining benefit obligations and annual costs.

Due to a decrease in the market interest rates for high-quality (AAA/AA) debt securities, which are used as the benchmark for setting the discount rate to calculate the present value of future benefit payments, we decreased the discount rate to 5.65% at December 31, 2010, from 6.00% at December 31, 2009, which will increase 2011 pension costs, all other factors remaining constant. Our discount rates are selected based on a plan-by-plan study, which matches our projected benefit payments to a high-quality corporate yield curve. Consistent with general market conditions, our plan assets performed well in 2010 with returns of approximately 13%. That positive asset performance will result in decreased pension costs in 2011, all other factors remaining constant. In addition, contributions to pension plan assets in late 2010 and in 2011 will result in decreased pension costs in 2011 due to increased asset balances and resulting expected earnings on those assets, all other factors remaining constant. Evaluations of the effects of these and other factors on our 2011 pension costs have not been completed, but we estimate that the total cost recognized for pensions in 2011 will be $70 million to $80 million, compared with $88 million recognized in 2010.

We have pension plan assets with a fair value of approximately $1.9 billion at December 31, 2010. Our expected rate of return on pension plan assets is 8.75%. The expected rate of return used in pension cost recognition is a long-term rate of return; therefore, we do not adjust that rate of return frequently. In 2009, we lowered the expected rate of return from the previously used 9.00%, due primarily to the uncertainties resulting from the severe capital market deterioration in 2008. A 25 basis point change in the expected rate of return for 2010 would have changed 2010 pension costs by approximately $4 million. For 2011, we have assumed an expected rate of return of 8.50%, which was reflected in the estimates of total pension costs discussed within this section.

Another factor affecting our pension costs, and sensitivity of the costs to plan asset performance, is the method selected to determine the market-related value of assets, i.e., the asset value to which the 8.75% expected long-term rate of return is applied. Entities may use either fair value or an averaging method that recognizes changes in fair value over a period not to exceed five years, with the method selected applied on a consistent basis from year to year. We have historically used a 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. Changes in plan asset performance are reflected in pension costs sooner under the fair value method than the five-year averaging method, and, therefore, pension costs tend to be more volatile using the fair value method. Approximately 50 percent of our pension plan assets are subject to each of the two methods.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our significant cash requirements arise primarily from the capital-intensive nature of the Utilities' operations, including expenditures for environmental compliance. We typically rely upon our operating cash flow, substantially all of which is generated by the Utilities, commercial paper and credit facilities, and our ability to access the long-term debt and equity capital markets for sources of liquidity. As discussed in "Future Liquidity and Capital Resources" below, synthetic fuels tax credits will provide an additional source of liquidity as those credits are realized.

The majority of our operating costs are related to the Utilities. Most of these costs are recovered from ratepayers in accordance with various rate plans. We are allowed to recover certain fuel, purchased power and other costs incurred by PEC and PEF through their respective recovery clauses. The types of costs recovered through clauses vary by jurisdiction. Fuel price volatility and plant performance can lead to over- or under-recovery of fuel costs, as changes in fuel expense are not immediately reflected in fuel surcharges due to regulatory lag in setting the surcharges. As a result, fuel price volatility and plant performance can be both a source of and a use of liquidity resources, depending on what phase of the cycle of price volatility we are experiencing and/or how our plants are performing. Changes in the Utilities' fuel and purchased power costs may affect the timing of cash flows, but not materially affect net income.

As a registered holding company, our establishment of intercompany extensions of credit is subject to regulation by the FERC. Our subsidiaries participate in internal money pools, administered by PESC, to more effectively utilize cash resources and reduce external short-term borrowings. The utility money pool allows the Utilities to lend to and borrow from each other. A non-utility money pool allows our nonregulated operations to lend to and borrow from each other. The Parent can lend money to the utility and non-utility money pools but cannot borrow funds.

The Parent is a holding company with $4.7 billion of senior unsecured debt following its issuance of $500 million of senior unsecured debt on January 21, 2011. As a holding company, the Parent has no revenue-generating operations of its own. The primary cash needs at the Parent level are our common stock dividend, interest and principal payments on the Parent's senior unsecured debt and potentially funding the Utilities' capital expenditures through equity contributions. The Parent's ability to meet these needs is typically funded with dividends from the Utilities generated from their earnings and cash flows, and to a lesser extent, dividends from other subsidiaries; repayment of funds due to the Parent by its subsidiaries; the Parent's credit facility; and/or the Parent's ability to access the short-term and long-term debt and equity capital markets. In recent years, rather than paying dividends to the Parent, the Utilities, in certain cases, have retained their free cash flow to fund their capital expenditures. During 2010, PEC paid dividends of $100 million and PEF paid dividends of $50 million to the Parent. PEC and PEF expect to pay dividends to the Parent in 2011. There are a number of factors that impact the Utilities' decision or ability to pay dividends to the Parent or to seek equity contributions from the Parent, including capital expenditure decisions and the timing of recovery of fuel and other pass-through costs. Therefore, we cannot predict the level of dividends or equity contributions between the Utilities and the Parent from year to year. The Parent could change its existing common stock dividend policy based upon these and other business factors.

Cash from operations, commercial paper issuance, borrowings under our credit facilities and/or long-term debt financings are expected to fund capital expenditures, long-term debt maturities and common stock dividends for 2011. We do not expect to realize a material amount of proceeds from the sale of equity in 2011 (See "Financing Activities").

We have 24 financial institutions that support our combined $2.0 billion revolving credit facilities for the Parent, PEC and PEF, thereby limiting our dependence on any one institution. The credit facilities serve as back-ups to our commercial paper programs. To the extent amounts are reserved for commercial paper or letters of credit outstanding, they are not available for additional borrowings. At December 31, 2010, the Parent had no outstanding borrowings under its credit facility, no outstanding commercial paper and had issued $31 million of letters of credit, which were supported by the revolving credit facility. At December 31, 2010, PEC and PEF had no outstanding borrowings under their respective credit facilities and no outstanding commercial paper. Based on these outstanding amounts at December 31, 2010, there was a combined $1.969 billion available for additional borrowings.

At December 31, 2010, PEC and PEF had limited counterparty mark-to-market exposure for financial commodity hedges (primarily gas and oil hedges) due to spreading our concentration risk over a number of counterparties. In the event of default by a counterparty, the exposure in the transaction is the cost of replacing the agreements at current market rates. At December 31, 2010, the majority of the Utilities' open financial commodity hedges were in net mark-to-market liability positions. See Note 17A for additional information with regard to our commodity derivatives.

At December 31, 2010, we had limited mark-to-market exposure to certain financial institutions under pay-fixed forward starting swaps to hedge cash flow risk with regard to future financing transactions for the Parent, PEC and PEF. In the event of default by a counterparty, the exposure in the transaction is the cost of replacing the agreements at current market rates. At December 31, 2010, the sums of the Parent's, PEC's and PEF's open pay-fixed forward starting swaps were each in a net mark-to-market liability position. See Note 17B for additional information with regard to our interest rate derivatives.

On July 21, 2010, the Wall Street Reform and Consumer Protection Act (H.R. 4173) was signed into law. Among other things, the law includes provisions related to the swaps and over-the-counter derivatives markets. Under the law, we expect to be exempt from mandatory clearing and exchange trading requirements for our commodity and interest rate hedges because we are an end user of these products. Capital and margin requirements for these hedges are expected to be determined as more detailed rules and regulations are published during 2011. At this time, we do not expect the law to have a material impact on our financial condition. However, we cannot determine the impact until the final regulations are issued.

Our pension and nuclear decommissioning trust funds are managed by a number of financial institutions, and the assets being managed are diversified in order to limit concentration risk in any one institution or business sector.

We believe our internal and external liquidity resources will be sufficient to fund our current business plans. We will continue to monitor the credit markets to maintain an appropriate level of liquidity. Our ability to access the capital markets on favorable terms may be negatively impacted by credit rating actions. Risk factors associated with the capital markets and credit ratings are discussed below.

Historical for 2010 as Compared to 2009 and 2009 as Compared to 2008

CASH FLOWS FROM OPERATIONS

Net cash provided by operations is the primary source used to meet operating requirements and a portion of capital expenditures. The Utilities produced substantially all of our consolidated cash from operations for the years ended December 31, 2010, 2009 and 2008. Net cash provided by operating activities for the three years ended December 31, 2010, 2009 and 2008, was $2.537 billion, $2.271 billion and $1.218 billion, respectively.

Net cash provided by operating activities increased $266 million for 2010, when compared to 2009. The increase was primarily due to the $203 million favorable impact of weather, partially offset by $78 million higher nuclear plant outage and maintenance costs included in O&M, both as previously discussed; $197 million lower cash used for inventory, primarily due to higher coal consumption in 2010 as a result of favorable weather that was fulfilled through the 2010 usage of inventory from year-end 2009; $154 million payment in 2009 due to a verdict in a lawsuit against Progress Energy and a number of our subsidiaries and affiliates previously engaged in coal-based solid synthetic fuels operations (See Note 22D); $56 million net cash receipts for income taxes in 2010 compared to $87 million net cash payments for income taxes in 2009; and $121 million lower cash used for pension and other benefits, primarily due to a reduction of contributions made in 2010. These amounts were partially offset by a $2 million under-recovery of fuel in 2010 compared to a $290 million over-recovery of fuel in 2009 due to higher fuel costs and lower fuel rates in 2010 and $23 million of net payments of cash collateral to counterparties on derivative contracts in 2010 compared to $200 million net refunds of cash collateral in 2009.

Net cash provided by operating activities for 2009 increased when compared with 2008. The $1.053 billion increase in operating cash flow was primarily due to a $290 million over-recovery of fuel in 2009 compared to a $333 under-recovery of fuel in 2008 due to higher fuel rates in 2009 and $340 million of cash collateral paid to counterparties on derivative contracts in 2008 compared to $200 million net refunds of cash collateral in 2009. These impacts were partially offset by $221 million of pension and other benefits contributions made in 2009.

The Utilities file annual requests with their respective state commissions seeking rate increases or decreases for fuel cost under- or over-recovery.

INVESTING ACTIVITIES

Net cash used by investing activities for the three years ended December 31, 2010, 2009 and 2008, was $2.400 billion, $2.532 billion and $2.541 billion, respectively.

Net cash used by investing activities decreased by $132 million for 2010, when compared to 2009. This decrease was primarily due to a $74 million decrease in gross property additions, primarily due to lower spending for environmental compliance and nuclear projects at PEF, partially offset by PEC's increased capital expenditures at the Wayne County, New Hanover County and Harris generating facilities; and a $62 million increase in cash provided by other investing activities primarily due to the receipt of Nuclear Electric Insurance Limited (NEIL) insurance proceeds for repairs due to the CR3 extended outage (See "Future Liquidity and Capital Resources – Regulatory Matters and Recovery of Costs – CR3 Outage").

Excluding proceeds from sales of discontinued operations and other assets, net of cash divested of $1 million in 2009 and $72 million in 2008, which are presented in other investing activities on the Consolidated Statements of Cash Flows, cash used in investing activities decreased by $80 million. The decrease in 2009 was primarily due to a $24 million decrease in gross property additions at the Utilities, primarily due to lower spending for environmental compliance projects and the completion of PEF's Bartow Plant repowering project in 2009; a $22 million decrease in nuclear fuel additions; and a $20 million decrease in net purchases of available-for-sale securities and other investments. Available-for-sale securities and other investments include marketable debt securities and investments held in nuclear decommissioning trusts.

During 2008, proceeds from sales of discontinued operations and other assets primarily included proceeds of $63 million from the sale of our coal terminals and docks and our remaining coal mining businesses (See Notes 3A and 3B).

FINANCING ACTIVITIES

Net cash (used) provided by financing activities for the three years ended December 31, 2010, 2009 and 2008, was $(251) million, $806 million and $1.248 billion, respectively. See Note 11 for details of debt and credit facilities.

Net cash used by financing activities increased by $1.057 billion for 2010 when compared to 2009. The increase was primarily due to the $1.687 billion reduction in proceeds from long-term debt issuances, net primarily due to the Parent's combined $1.700 billion issuances and PEC's $600 million issuance in 2009 compared to PEF's $600 million issuance of long-term debt in 2010, partially offset by the Parent's payments of $629 million on short-term debt with original maturities greater than 90 days in 2009.

Net cash provided by financing activities decreased by $442 million for 2009 when compared to 2008. The decrease is primarily due to a $1.082 billion increase in net payments on short-term debt with original maturities greater than 90 days, primarily driven by the Parent's repayment of prior-year borrowings under its revolving credit agreements (RCAs) and an $877 million net decrease in short-term indebtedness, primarily driven by commercial paper repayments; partially offset by a $491 million increase in proceeds from the issuance of common stock, primarily related to the Parent's January 2009 common stock offering, a $481 million increase in net proceeds from long-term debt issuances due to the Parent's combined $1.700 billion issuances and PEC's $600 million issuance in 2009 compared to PEF's $1.500 billion issuance and PEC's $325 million issuance in 2008; and a $477 million decrease in payments at maturity of long-term debt.

Our financing activities are described below.

2011

- On January 21, 2011, the Parent issued $500 million of 4.40% Senior Notes due 2021. We expect to use the net proceeds, along with available cash on hand, to retire at maturity the $700 million outstanding aggregate principal balance of our 7.10% Senior Notes due March 1, 2011.

2010

- On January 15, 2010, the Parent paid at maturity $100 million of its Series A Floating Rate Notes with a portion of the proceeds from the $950 million of Senior Notes issued in November 2009.
- On March 25, 2010, PEF issued $250 million of 4.55% First Mortgage Bonds due 2020 and $350 million of 5.65% First Mortgage Bonds due 2040. Proceeds were used to repay the outstanding balance of PEF's notes payable to affiliated companies, to repay the maturity of PEF's $300 million 4.50% First Mortgage Bonds due June 1, 2010, and for general corporate purposes.
- On October 15, 2010, PEC and PEF each entered into new $750 million, three-year RCAs with a syndication of 22 financial institutions. The RCAs are used to provide liquidity support for PEC's and PEF's issuances of commercial paper and other short-term obligations, and for general corporate purposes. The RCAs will expire on October 15, 2013. The new $750 million RCAs replaced PEC's and PEF's $450 million RCAs, which were set to expire June 28, 2011 and March 28, 2011, respectively. Both S450 million RCAs were terminated effective October 15, 2010 (See "Credit Facilities and Registration Statements").
- On October 15, 2010, the Parent ratably reduced the size of its $1.130 billion credit facility to $500 million with the existing group of 15 financial institutions (See "Credit Facilities and Registration Statements").
- Progress Energy issued approximately 12.2 million shares of common stock resulting in approximately $434 million in proceeds from the Progress Energy Investor Plus Plan (IPP) and its employee benefit and equity incentive plans. Included in these amounts were approximately 11.2 million shares for proceeds of approximately $431 million issued for the IPP. For 2010, the dividends paid on common stock were approximately $718 million.

2009

- On January 12, 2009, the Parent issued 14.4 million shares of common stock at a public offering price of $37.50 per share. Net proceeds from this offering were approximately $523 million. On February 3, 2009, the Parent used $100 million of the proceeds to reduce its $600 million RCA balance outstanding at December 31, 2008, and the remainder was used for general corporate purposes.
- On January 15, 2009, PEC issued $600 million of First Mortgage Bonds, 5.30% Series due 2019. A portion of the proceeds was used to repay the maturity of PEC's $400 million 5.95% Senior Notes, due March 1, 2009. The remaining proceeds were used to repay PEC's outstanding short-term debt and for general corporate purposes.
- On March 19, 2009, the Parent issued an aggregate $750 million of Senior Notes consisting of $300 million of 6.05% Senior Notes due 2014 and $450 million of 7.05% Senior Notes due 2019. A portion of the proceeds was used to fund PEF's capital expenditures through an equity contribution with the remaining proceeds used for general corporate purposes.
- On June 18, 2009, PEC entered into a Seventy-seventh Supplemental Indenture to its Mortgage and Deed of Trust, dated May 1, 1940, as supplemented, in connection with certain amendments to the mortgage. The amendments are set forth in the Seventy-seventh Supplemental Indenture and include an amendment to extend the maturity date of the mortgage by 100 years. The maturity date of the mortgage is now May 1, 2140.
- On November 19, 2009, the Parent issued an aggregate $950 million of Senior Notes consisting of $350 million of 4.875% Senior Notes due 2019 and $600 million of 6.00% Senior Notes due 2039. The proceeds were used to retire at maturity the $100 million outstanding Series A Floating Rate Notes due January 15, 2010, to repay outstanding commercial paper balances, to pre-fund a portion of the $700 million aggregate principal amount due upon maturity of our 7.10% Senior Notes due March 1, 2011, and for general corporate purposes.

- During 2009, we repaid the November 2008 $600 million borrowing under our RCA.
- Progress Energy issued approximately 3.1 million shares of common stock resulting in approximately $100 million in proceeds from its IPP and its employee benefit and equity incentive plans. Included in these amounts were approximately 2.5 million shares for proceeds of approximately $100 million issued for the Progress Energy 401(k) Savings & Stock Ownership Plan (401(k)) and the IPP. For 2009, the dividends paid on common stock were approximately $693 million.

2008

- On February 1, 2008, PEF paid at maturity $80 million of its 6.875% First Mortgage Bonds with available cash on hand and commercial paper borrowings.
- On March 12, 2008, PEC and PEF amended their RCAs with a syndication of financial institutions to extend the termination date by one year. The extensions were effective for both utilities on March 28, 2008. PEC's RCA was extended to June 28, 2011, and PEF's RCA was extended to March 28, 2011. These credit facilities were terminated on October 15, 2010 (See "Credit Facilities and Registration Statements").
- On March 13, 2008, PEC issued $325 million of First Mortgage Bonds, 6.30% Series due 2038. The proceeds were used to repay the maturity of PEC's $300 million 6.65% Medium-Term Notes, Series D, due April 1, 2008, and the remainder was placed in temporary investments for general corporate use as needed.
- On April 14, 2008, the Parent amended its RCA with a syndication of financial institutions to extend the termination date by one year. The extension was effective on May 2, 2008. The RCA is now scheduled to expire on May 3, 2012 (See "Credit Facilities and Registration Statements").
- On May 27, 2008, Progress Capital Holdings, Inc., one of our wholly owned subsidiaries, paid at maturity its remaining outstanding debt of $45 million of 6.46% Medium-Term Notes with available cash on hand.
- On June 18, 2008, PEF issued $500 million of First Mortgage Bonds, 5.65% Series due 2018 and $1.000 billion of First Mortgage Bonds, 6.40% Series due 2038. A portion of the proceeds was used to repay PEF's utility money pool borrowings, and the remaining proceeds were placed in temporary investments for general corporate use as needed. On August 14, 2008, PEF redeemed the entire outstanding $450 million principal amount of its Series A Floating Rate Notes due November 14, 2008, at 100 percent of par plus accrued interest. The redemption was funded with a portion of the proceeds from the June 18, 2008 debt issuance.
- On November 3, 2008, the Parent borrowed $600 million under its RCA to reduce rollover risk in the commercial paper markets. The borrowing was repaid during 2009.
- On November 18, 2008, the Parent, as a well-known seasoned issuer, PEC and PEF filed a combined shelf registration statement with the SEC, which became effective upon filing with the SEC. The registration statement is effective for three years and does not limit the amount or number of various securities that can be issued (See "Credit Facilities and Registration Statements").
- Progress Energy issued approximately 3.7 million shares of common stock resulting in approximately $132 million in proceeds from its IPP and its employee benefit and equity incentive plans. Included in these amounts were approximately 3.1 million shares for proceeds of approximately $131 million issued for the 401(k) and the IPP. For 2008, the dividends paid on common stock were approximately $642 million.

SHORT-TERM DEBT

At December 31, 2010, and at the end of each month during 2010, Progress Energy had no outstanding short-term debt.

Future Liquidity and Capital Resources

Please review "Safe Harbor for Forward-Looking Statements" for a discussion of the factors that may impact any such forward-looking statements made herein.

The Utilities produce substantially all of our consolidated cash from operations. We anticipate that the Utilities will continue to produce substantially all of the consolidated cash flows from operations over the next several years. Our discontinued synthetic fuels operations historically produced significant net earnings from the generation of tax credits (See "Other Matters – Synthetic Fuels Tax Credits"). A portion of these tax credits has yet to be realized in cash due to the difference in timing of when tax credits are recognized for financial reporting purposes and realized for tax purposes. At December 31, 2010, we have carried forward $836 million of deferred tax credits. Realization of these tax credits is dependent upon our future taxable income, which is expected to be generated primarily by the Utilities.

We expect to be able to meet our future liquidity needs through cash from operations, availability under our credit facilities and issuances of commercial paper and long-term debt, which are dependent on our ability to successfully access capital markets.

Credit rating downgrades could negatively impact our ability to access the capital markets and respond to major events such as hurricanes. Our cost of capital could also be higher, which could ultimately increase prices for our customers. It is important for us to maintain our credit ratings and have access to the capital markets in order to reliably serve customers, invest in capital improvements and prepare for our customer's future energy needs.

We typically issue commercial paper to meet short-term liquidity needs. If liquidity conditions deteriorate and negatively impact the commercial paper market, we will need to evaluate other, potentially more expensive, options for meeting our short-term liquidity needs, which may include borrowing under our RCAs, issuing short-term notes and/or issuing long-term debt.

On October 15, 2010, PEC and PEF entered into new three-year RCAs. The Parent's RCA will expire in May 2012, with the exception of approximately $22 million that will expire in May 2011 (See "Credit Facilities and Registration Statements"). In the event we enter into a new credit facility for the Parent, we cannot predict the terms, prices, duration or participants in such facility.

Progress Energy and its subsidiaries have approximately $12.642 billion in outstanding long-term debt, including the $505 million current portion at December 31, 2010. Currently, approximately $860 million of the Utilities' debt obligations, approximately $620 million at PEC and approximately $240 million at PEF, are tax-exempt auction rate securities insured by bond insurance. These tax-exempt bonds have experienced and continue to experience failed auctions. Assuming the failed auctions persist, future interest rate resets on our tax-exempt auction rate bond portfolio will be dependent on the volatility experienced in the indices that dictate our interest rate resets and/or rating agency actions that may lower our tax-exempt bond ratings. In the event of a two notch downgrade of PEC's and/or PEF's senior secured debt rating by Standard & Poor's Rating Services (S&P), the ratings of such utility's tax-exempt bonds would be below A-, most likely resulting in higher future interest rate resets. In the event of a two notch downgrade by Moody's Investor Services, Inc. (Moody's), PEC's tax-exempt bonds will continue to be rated at or above A3 while PEF's would be below A3, most likely resulting in higher future interest rate resets for PEF's tax-exempt bonds. We will continue to monitor this market and evaluate options to mitigate our exposure to future volatility.

The performance of the capital markets affects the values of the assets held in trust to satisfy future obligations under our defined benefit pension plans. Although a number of factors impact our pension funding requirements, a decline in the market value of these assets may significantly increase the future funding requirements of the obligations under our defined benefit pension plans. We expect to make contributions of $300 million to $400 million directly to pension plan assets in 2011 (See Note 16).

As discussed in "Liquidity and Capital Resources," "Capital Expenditures," and in "Other Matters – Environmental Matters," over the long term, compliance with environmental regulations and meeting the anticipated load growth at the Utilities as described under "Other Matters – Energy Demand" will require the Utilities to make significant capital investments. We may pursue joint ventures or similar arrangements with third parties in order to share some of the financing and operational risks associated with new baseload generation. As discussed in "Other Matters – Nuclear – Potential New Construction," PEF will postpone major capital expenditures for the Levy project until after the NRC issues the COL, which is expected to be in 2013 if the current licensing schedule remains on track.

Certain of our hedge agreements may result in the receipt of, or posting of, derivative collateral with our counterparties, depending on the daily derivative position. Fluctuations in commodity prices that lead to our return of collateral received and/or our posting of collateral with our counterparties negatively impact our liquidity. Substantially all derivative commodity instrument positions are subject to retail regulatory treatment. After settlement of the derivatives and consumption of the fuel, any realized gains or losses are passed through the fuel cost-recovery clause. Changes in natural gas prices and settlements of financial hedge agreements since December 31, 2009, have impacted the amount of collateral posted with counterparties. At December 31, 2010, we had posted approximately $164 million of cash collateral compared to $146 million of cash collateral posted at December 31, 2009. The majority of our financial hedge agreements will settle in 2011 and 2012. Additional commodity market price decreases could result in significant increases in the derivative collateral that we are required to post with counterparties. We continually monitor our derivative positions in relation to market price activity. As discussed in Note 17C, credit rating downgrades could also require us to post additional cash collateral for commodity hedges in a liability position as certain derivative instruments require us to post collateral on liability positions based on our credit ratings.

The amount and timing of future sales of debt securities will depend on market conditions, operating cash flow and our specific liquidity needs. We may from time to time sell securities beyond the amount immediately needed to meet our capital or liquidity requirements in order to prefund our expected maturity schedule, to allow for the early redemption of long-term debt, the redemption of preferred stock, the reduction of short-term debt or for other corporate purposes.

At December 31, 2010, the current portion of our long-term debt was $505 million. We expect to fund the Parent's $700 million of Senior Notes due March 1, 2011 with a combination of available cash on hand and net proceeds of $495 million from the Parent's issuance of $500 million of 4.40% Senior Notes on January 21, 2011. Accordingly, we classified $495 million of the Parent's $700 million Senior Notes due March 1, 2011 as long-term debt at December 31, 2010. We expect to fund PEF's $300 million current portion of long-term debt with a combination of cash from operations, commercial paper borrowings and/or long-term debt.

REGULATORY MATTERS AND RECOVERY OF COSTS

Regulatory matters, including nuclear cost recovery, as discussed in Note 7 and "Other Matters – Regulatory Environment," and recovery of environmental costs, as discussed in Note 21 and in "Other Matters – Environmental Matters," may impact our future liquidity and financing activities. The impacts of these matters, including the timing of recoveries from ratepayers, can be both a source of and a use of future liquidity resources. Energy legislation enacted in recent years may impact our liquidity over the long term, including, among others, provisions regarding cost recovery, mandated renewable portfolio standards, DSM and EE.

Regulatory developments expected to have a material impact on our liquidity are discussed below.

PEC Cost-Recovery Clause

On June 23, 2010, the SCPSC approved PEC's request for a decrease in the fuel rate charged to its South Carolina ratepayers. The $17 million decrease, effective July 1, 2010, is driven by declining fuel prices.

On November 17, 2010, the NCUC approved PEC's request for a decrease in the fuel rate charged to its North Carolina ratepayers. The $170 million decrease, effective December 1, 2010, is also driven by declining fuel prices.

Also on November 17, 2010, the NCUC approved PEC's request for an increase in the DSM and EE rate charges to its North Carolina ratepayers. The $31 million increase was effective December 1, 2010.

PEC Other Matters

The NCUC has issued Certificates of Public Convenience and Necessity allowing PEC to proceed with plans to construct an approximately 600-MW generating facility at its Richmond County generation site projected to be in service by June 2011; an approximately 950-MW generating facility at a site in Wayne County, N.C., projected to be in service by January 2013; and an approximately 620-MW generating facility at a site in New Hanover County, N.C., projected to be in service by December 2013.

PEF Base Rates

On June 1, 2010, the FPSC approved a settlement agreement between PEF and the interveners, with the exception of the Florida Association for Fairness in Ratemaking, to the 2009 rate case. As part of the settlement, PEF withdrew its motion for reconsideration of the rate case order. Among other provisions, under the terms of the settlement agreement, PEF will maintain base rates at current levels through the last billing cycle of 2012. Among other provisions, the settlement agreement also authorized PEF the opportunity to earn a return on equity (ROE) of up to 11.5 percent and provides that if PEF's actual retail base rate earnings fall below a 9.5 percent ROE on an adjusted or pro forma basis, as reported on a historical 12-month basis during the term of the agreement, PEF may seek general, limited or interim base rate relief, or any combination thereof, subject to certain conditions. The settlement agreement does not preclude PEF from requesting the FPSC to approve the recovery of costs (a) that are of a type which traditionally and historically would be, have been or are presently recovered through cost-recovery clauses or surcharges; or (b) that are incremental costs not currently recovered in base rates, which the legislature or FPSC determines are clause recoverable; or (c) which are recoverable through base rates under the nuclear cost-recovery legislation or the FPSC's nuclear cost-recovery rule. Finally, PEF will be allowed to recover the costs of named storms on an expedited basis after depletion of the storm damage reserve. Specifically, 60 days following the filing of a cost-recovery petition with the FPSC and based on a 12-month recovery period, PEF can begin recovery, subject to refund, through a surcharge of up to $4.00 per 1,000 kWh on monthly residential customer bills for storm costs. In the event the storm costs exceed that level, any excess additional costs will be deferred and recovered in a subsequent year or years as determined by the FPSC. Additionally, the order approving the settlement agreement allows PEF to use the surcharge to replenish the storm damage reserve to $136 million, the level as of June 1, 2010, after storm costs are fully recovered

PEF Fuel Cost Recovery

On November 1, 2010, PEF filed a request with the FPSC to seek approval to decrease the total fuel cost-recovery by $205 million. This decrease is due to a decrease for the projected recovery through the Capacity Cost-Recovery Clause (CCRC) and for the projected recovery of fuel costs. The decrease in the CCRC is primarily due to the refund of a prior period over-recovery as a result of higher than expected sales in 2010 and lower anticipated costs associated with PEF's proposed Levy project in 2011 (See "Other Matters – Nuclear – Potential New Construction"). The decrease in the projected recovery of fuel costs is due to lower expected 2011 fuel costs, partially offset by an under-recovery of 2010 fuel costs. On November 2, 2010 and November 30, 2010, the FPSC approved PEF's CCRC residential rate and fuel rate, respectively.

PEF Nuclear Cost Recovery

PEF is allowed to recover prudently incurred site selection costs, preconstruction costs and the carrying cost on construction cost balances on an annual basis through the CCRC. Such amounts will not be included in PEF's rate base when the plant is placed in commercial operation. The nuclear cost-recovery rule also has a provision to recover costs should the project be abandoned after the utility receives a final order granting a Determination of Need. These costs include any unrecovered construction work in progress at the time of abandonment and any other prudent and reasonable exit costs. In addition, the rule requires the FPSC to conduct an annual prudence review of the reasonableness and prudence of all such costs, including construction costs, and such determination shall not be subject to later review except upon a finding of fraud, intentional misrepresentation or the intentional withholding of key information by the utility.

In 2009, pursuant to the FPSC nuclear cost-recovery rule, PEF filed a petition to recover $446 million through the CCRC, which primarily consisted of preconstruction and carrying costs incurred or anticipated to be incurred during 2009 and the projected 2010 costs associated with the Levy and CR3 uprate projects. In an effort to help mitigate the initial price impact on its customers, PEF proposed and the FPSC approved collecting certain costs over a five-year period, with associated carrying costs on the unrecovered balance. In adopting PEF's proposed rate management plan for 2010, the FPSC permitted PEF to annually reconsider changes to the recovery of deferred amounts to afford greater flexibility to manage future rate impacts. The rate management plan included the 2009 reclassification to the nuclear cost-recovery clause regulatory asset of $198 million of capacity revenues and the accelerated amortization of $76 million of preconstruction costs. The cumulative amount of $274 million was recorded as a nuclear cost-recovery regulatory asset at December 31, 2009, and is projected to be recovered by 2014.

On October 26, 2010, the FPSC approved PEF's annual nuclear cost-recovery filing with the FPSC to recover $164 million, which includes recovery of preconstruction, carrying and CCRC-recoverable O&M costs incurred or anticipated to be incurred during 2011, recovery of $60 million of the 2009 deferral in 2011, as well as the estimated true-up of 2010 costs associated with the Levy and CR3 uprate projects beginning with the first January 2011 billing cycle. Additionally, the FPSC approved the prudence of the 2009 costs associated with the Levy project. The final order was issued on February 2, 2011.

CR3 Outage

PEF maintains insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at CR3 through NEIL (See Note 4D). NEIL has confirmed that the CR3 delamination event is a covered accident. PEF is continuing to work with NEIL for recovery of applicable repair costs and associated replacement power costs

The following table summarizes the CR3 replacement power and repair costs and recovery through December 31, 2010:

(in millions)	Replacement Power Costs	Repair Costs
Spent to date	$288	$150
NEIL proceeds received	(117)	(64)
Insurance receivable at December 31, 2010	(54)	(47)
Balance for recovery	$117	$39

PEF considers replacement power and capital costs not recoverable through insurance to be recoverable through its fuel cost-recovery clause or base rates. PEF accrued $171 million of replacement power cost reimbursements after the deductible period, which reduced the portion of the deferred fuel regulatory asset related to the extended CR3 outage to $117 million at December 31, 2010. Additional replacement power costs and repair and maintenance costs incurred until CR3 is returned to service could be material.

We cannot predict the outcome of this matter.

PEF Demand-Side Management Cost Recovery

On December 30, 2009, the FPSC ordered PEF and other Florida utilities to adopt DSM goals based on enhanced measures, which will result in significantly higher conservation goals. As subsequently revised by the FPSC, PEF's aggregate conservation goals over the next 10 years were: 1,134 Summer MW, 1,058 Winter MW, and 3,205 gigawatt-hours (GWh). On March 30, 2010, PEF filed a petition for approval of its proposed DSM plan and to authorize cost recovery through the ECCR. On September 14, 2010, the FPSC held an agenda conference to approve PEF's petition for the DSM plan. The FPSC ruled that while PEF's proposed DSM plan met the cumulative, 10-year DSM goals set by the FPSC, the plan did not meet the annual DSM goals. On October 4, 2010, the FPSC denied PEF's petition for the DSM plan, approved PEF's solar pilot programs, and required PEF to file a revised proposed DSM plan that meets the annual goals set by the FPSC. PEF filed a revised proposed DSM plan on November 29, 2010, which would result in 1,540 GWh of energy savings from 2011-2019, seven times more than PEF's historic goals. An agenda conference has been scheduled by the FPSC for April 5, 2011. We cannot predict the outcome of this matter.

PEF Other Matters

On November 1, 2010, the FPSC approved PEF's request to decrease the ECRC by $37 million, effective January 1, 2011. The decrease in the ECRC is primarily due to the 2010 base rate decision, which reduced the clean air project depreciation and return rates, and the refund of a prior period over-recovery as a result of higher than expected sales in 2010.

CAPITAL EXPENDITURES

We expect to make significant capital investments to meet anticipated load growth and environmental standards. We are currently constructing new generating facilities in the Carolinas and potentially will construct new baseload generating facilities in the Carolinas and Florida that will be placed in service toward the middle of the next decade.

Total cash from operations and proceeds from long-term debt and equity issuances provided the funding for our capital expenditures, including environmental compliance and other utility property additions, nuclear fuel expenditures and non-utility property additions, during 2010.

As shown in the table that follows, we expect the majority of our capital expenditures to be incurred at our regulated operations. We expect to fund our capital requirements primarily through a combination of cash from operations and long-term debt financings. In addition, we have $2.0 billion in credit facilities that support the issuance of commercial paper. Access to the commercial paper market provides additional liquidity to help meet our working capital requirements. AFUDC – borrowed funds represents the debt costs of capital funds necessary to finance the construction of new regulated plant assets.

	Actual	Forecasted		
(in millions)	**2010**	2011	2012	2013
Regulated capital expenditures	**$2,105**	$1,965	$1,820	$1,775
Nuclear fuel expenditures	**221**	205	225	240
AFUDC – borrowed funds	**(30)**	(30)	(30)	(20)
Other capital expenditures	**10**	30	30	30
Total before potential nuclear construction	**2,306**	2,170	2,045	2,025
Potential nuclear construction[a]	**104**	50–100	50–100	200–300
Total	**$2,410**	$2,220–2,270	$2,095–2,145	$2,225–2,325

[a] Expenditures for potential nuclear construction are net of AFUDC – borrowed funds.

Regulated capital expenditures for 2011, 2012 and 2013 in the previous table include approximately $30 million, $15 million and $25 million, respectively, for environmental compliance capital expenditures. Forecasted environmental compliance capital expenditures for 2011, 2012 and 2013 include $20 million, $15 million and $25 million, respectively, at PEC and $10 million at PEF for 2011. See "Other Matters – Environmental Matters" for further discussion of our environmental compliance costs and related recovery of costs.

Potential nuclear construction expenditures, which are primarily for PEF's Levy project, include development, engineering, licensing, land acquisition and equipment.

Forecasted potential nuclear construction expenditures are dependent upon, and may vary significantly based upon, the decision to build, regulatory approval schedules, timing and escalation of project costs, and the percentages of joint ownership Because of announced schedule shifts, we negotiated an amendment to the Levy EPC agreement (See discussion under "Other Matters – Nuclear – Potential New Construction") The forecasted capital expenditures presented in the previous table reflect the announced schedule shift. Additionally, in light of the schedule shifts in the Levy project, PEF may incur fees and charges related to the disposition of outstanding purchase orders on long lead time equipment, which could be material. In June 2010, PEF completed its long lead time equipment disposition analysis to minimize the impact associated with the schedule shift As a result of the analysis, PEF will continue with selected components of the long lead time equipment Work has been suspended on the remaining long lead time equipment items and PEF has been in suspension negotiations with the selected equipment vendors, which we anticipate concluding by the end of the first quarter of 2011 Potential nuclear construction expenditures are subject to cost-recovery provisions in the Utilities' respective jurisdictions

All projected capital and investment expenditures are subject to periodic review and revision and may vary significantly depending on a number of factors including, but not limited to, industry restructuring, regulatory constraints, market volatility and economic trends

CREDIT FACILITIES AND REGISTRATION STATEMENTS

At December 31, 2010 and 2009, we had committed lines of credit used to support our commercial paper borrowings

At December 31, 2010 and 2009, we had no outstanding borrowings under our credit facilities We are required to pay fees to maintain our credit facilities

The following table summarizes our RCAs and available capacity at December 31:

(in millions)		Total	Outstanding	Reserved[a]	Available
2010					
Parent	**Five-year (expiring 5/3/12)[b]**	**S500**	**S–**	**S31**	**S469**
PEC	**Three-year (expiring 10/15/13)**	**750**	**–**	**–**	**750**
PEF	**Three-year (expiring 10/15/13)**	**750**	**–**	**–**	**750**
Total credit facilities		**S2,000**	**S–**	**S31**	**S1,969**
2009					
Parent	Five-year (expiring 5/3/12)	S1,130	S–	S177	S953
PEC	Five-year (expiring 6/28/11)	450	–	–	450
PEF	Five-year (expiring 3/28/11)	450	–	–	450
Total credit facilities		S2,030	S–	S177	S1,853

[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, 2010 and 2009, the Parent had S31 million and S37 million, respectively, of letters of credit issued, which were supported by the RCA Additionally, on December 31, 2009, the Parent had S140 million of outstanding commercial paper supported by the RCA

[b] Approximately S22 million of the S500 million will expire May 3, 2011

All of the revolving credit facilities were arranged through a syndication of financial institutions. See Note 11 for additional discussion of our credit facilities.

The RCAs provide liquidity support for issuances of commercial paper and other short-term obligations. We expect to continue to use commercial paper issuances as a source of liquidity as long as we maintain our current short-term ratings. Fees and interest rates under our RCAs are based upon the respective credit ratings of the Parent's, PEC's and PEF's long-term unsecured senior noncredit-enhanced debt

All of the credit facilities include defined maximum total debt-to-total capital ratio (leverage) covenants, which we were in compliance with at December 31, 2010. We are currently in compliance and expect to continue to be in compliance with these covenants See Note 11 for a discussion of the credit facilities' financial covenants. At December 31, 2010, the calculated ratios pursuant to the terms of the agreements, are as disclosed in Note 11

The Parent, as a well-known seasoned issuer, has on file with the SEC a shelf registration statement under which it may issue an unlimited number or amount of various securities, including senior debt securities, junior subordinated debentures, common stock, preferred stock, stock purchase contracts, stock purchase units, and trust preferred securities and guarantees. Both PEC and PEF have on file with the SEC shelf registration statements under which they may issue an unlimited number or amount of various long-term debt securities and preferred stock. The Parent's, PEC's and PEF's shelf registration statements filed with the SEC expire on November 18, 2011.

Both PEC and PEF can issue first mortgage bonds under their respective first mortgage bond indentures based on property additions, retirements of first mortgage bonds and the deposit of cash, provided that adjusted net earnings are at least twice the annual interest requirement for bonds currently outstanding and to be outstanding. At December 31, 2010, PEC and PEF could issue up to approximately $6.8 billion and $2.7 billion of first mortgage bonds, respectively, based on property additions and retirements of previously issued first mortgage bonds. At December 31, 2010, PEC's and PEF's ratios of adjusted net earnings to annual interest requirement on outstanding first mortgage bonds were 5.6 times and 3.2 times, respectively.

CAPITALIZATION RATIOS

The following table shows each component of capitalization as a percentage of total capitalization at December 31, 2010 and 2009. In addition to total equity and preferred stock, total capitalization includes the following in total debt: long-term debt, net, long-term debt, affiliate, current portion of long-term debt, short-term debt and capital lease obligations.

	2010	2009
Total equity	**43.6%**	42.3%
Preferred stock	**0.4%**	0.4%
Total debt	**56.0%**	57.3%

CREDIT RATING MATTERS

Our credit ratings reflect the current views of the rating agencies, and no assurances can be given that our ratings will continue for any given period of time. However, we monitor our financial condition as well as market conditions that could ultimately affect our credit ratings.

Credit rating downgrades could negatively impact our ability to access the capital markets and respond to major events such as hurricanes. Our cost of capital could also be higher, which could ultimately increase prices for our customers. It is important for us to maintain our credit ratings and have access to the capital markets in order to reliably serve customers, invest in capital improvements and prepare for our customer's future energy needs.

As discussed in Note 17C, credit rating downgrades could also require us to post additional cash collateral for commodity hedges in a liability position as certain derivative instruments require us to post collateral on liability positions based on our credit ratings.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

Our off-balance sheet arrangements and contractual obligations are described below.

Guarantees

As a part of normal business, we enter into various agreements providing future financial or performance assurances to third parties. 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. Our guarantees include standby letters of credit, surety bonds, performance obligations for trading operations and guarantees of certain subsidiary credit obligations. At December 31, 2010, we have issued $488 million of guarantees for future financial or performance assurance. Included in this amount is $300 million of guarantees of certain payments of two wholly owned indirect subsidiaries issued by the Parent (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.

At December 31, 2010, 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 as discussed in Note 22C.

Market Risk and Derivatives

Under our risk management 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. See Note 17 and "Quantitative and Qualitative Disclosures About Market Risk" for a discussion of market risk and derivatives

Contractual Obligations

We are party to numerous contracts and arrangements obligating us to make cash payments in future years. These contracts include financial arrangements such as debt agreements and leases, as well as contracts for the purchase of goods and services. In most cases, these contracts contain provisions for price adjustments, minimum purchase levels and other financial commitments. The commitment amounts presented in the following table are estimates and therefore will likely differ from actual purchase amounts. Further disclosure regarding our contractual obligations is included in the respective notes to the Consolidated Financial Statements. We take into consideration the future commitments when assessing our liquidity and future financing needs.

The following table reflects Progress Energy's contractual cash obligations and other commercial commitments at December 31, 2010, in the respective periods in which they are due:

(in millions)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt (See Note 11)[a]	$12,699	$1,000	$1,780	$1,300	$8,619
Interest payments on long-term debt[b]	10,034	691	1,234	1,079	7,030
Capital lease obligations (See Note 22B)[c]	457	34	75	65	283
Operating leases (See Note 22B)[c]	1,415	37	154	182	1,042
Fuel and purchased power (See Note 22A)[d]	21,745	2,882	5,247	3,436	10,180
Other purchase obligations (See Note 22A)[e]	2,046	629	490	216	711
Minimum pension funding requirements[f]	568	126	267	153	22
Other postretirement benefits[g]	489	41	89	96	263
Uncertain tax positions[h]	–	–	–	–	–
Other commitments[i]	91	13	26	26	26
Total	$49,544	$5,453	$9,362	$6,553	$28,176

[a] Our maturing debt obligations are generally expected to be repaid with cash from operations or refinanced with new debt issuances in the capital markets.

[b] Interest payments on long-term debt are based on the interest rate effective at December 31, 2010.

[c] Amounts include certain related executory cost commitments.

[d] Essentially all fuel and certain purchased power costs incurred by the Utilities are eligible for recovery through cost-recovery clauses in accordance with state and federal regulations and therefore do not require separate liquidity support. Amounts exclude precedent and conditional contracts of $3.213 billion and an approximately $400 million Levy nuclear fuel fabrication contract. (See Note 22A and the other purchase obligations discussion following in (e)).

[e] Amounts exclude an EPC agreement that PEF entered into in December 2008 for two nuclear units planned for construction at Levy. As disclosed in "Other Matters – Nuclear – Potential New Construction," the EPC agreement includes provisions for termination. For termination without cause, the EPC agreement contains exit provisions with termination fees, which may be significant, that vary based on the termination circumstances. We executed an amendment to the EPC agreement in 2010 due to the schedule shifts that will postpone major construction activities on the project until after the NRC issues the COL, which is expected to be in 2013, if the licensing schedule remains on track. Prior to the amendment, estimated payments and associated escalations were $8.608 billion for the multi-year contract and did not assume any joint ownership. Because we have executed an amendment to the EPC agreement and anticipate negotiating additional amendments upon receipt of the COL, we cannot currently predict the timing of when those obligations will be satisfied or the magnitude of any change. Additionally, in light of the schedule shifts in the Levy nuclear project, PEF may incur fees and charges related to the disposition of outstanding purchase orders on long lead time equipment for the Levy nuclear project, which could be material. In June 2010, PEF completed its long lead time equipment disposition analysis to minimize the impact associated with the schedule shift. As a result of the analysis, PEF will continue with selected components of the long lead time equipment. Work has been suspended on the remaining long lead time equipment items, which have total remaining estimated payments and associated escalations of approximately $1.250 billion included in the previously discussed $8.608 billion. PEF has been in suspension negotiations with the selected equipment vendors, which we anticipate concluding by the end of the first quarter of 2011. In its April 30, 2010 nuclear cost-recovery filing, PEF included for rate-making purposes a point estimate of potential Levy disposition fees and charges of $50 million, subject to true-up. However, the amount of disposition fees and charges, if any, cannot be determined until suspension negotiations are completed. We cannot predict the outcome of this matter.

[f] Represents the projected minimum required contributions to the qualified pension trusts for a total of 10 years. These amounts are subject to change significantly based on factors such as pension asset earnings and market interest rates.

[g] Represents projected benefit payments for a total of 10 years related to our postretirement health and life plans and are subject to change based on factors such as experienced claims and general health care cost trends.

[h] Uncertain tax positions of $176 million are not reflected in this table as we cannot predict when open income tax years will close with completed examinations. It is reasonably possible that the total amounts of unrecognized tax benefits will decrease by up to approximately $60 million during the 12-month period ending December 31, 2011, due to expected settlements.

[i] By NCUC order, in 2008, PEC began transitioning North Carolina jurisdictional amounts currently retained internally to its external decommissioning funds. The transition of the original $131 million must be complete by December 31, 2017, and at least 10 percent must be transitioned each year.

OTHER MATTERS

Regulatory Environment

The Utilities' operations in North Carolina, South Carolina and Florida are regulated by the NCUC, the SCPSC and the FPSC, respectively. The Utilities are also subject to regulation by the FERC, the NRC and other federal and state agencies common to the utility business. As a result of regulation, many of the fundamental business decisions, as well as the rate of return the Utilities are permitted the opportunity to earn, are subject to the approval of one or more of these governmental agencies.

To our knowledge, there is currently no enacted or proposed legislation in North Carolina, South Carolina or Florida that would give retail ratepayers the right to choose their electricity provider or otherwise restructure or deregulate the electric industry. We cannot anticipate if any of these states will move to increase retail competition in the electric industry.

Current retail rate matters affected by state regulatory authorities are discussed in Notes 7B and 7C. This discussion identifies specific retail rate matters, the status of the issues and the associated effects on our consolidated financial statements

On April 28, 2010, we accepted a grant from the United States Department of Energy (DOE) for $200 million in federal matching infrastructure funds. In addition to providing the Utilities real-time information about the state of their electric grids, the smart grid transition will enable customers to better understand and manage their energy use, and will provide for more efficient integration of renewable energy resources. Supplementing the DOE grant, the Utilities will invest more than $300 million in smart grid projects, which include enhancements to distribution equipment, installation of 160,000 additional smart meters and additional public infrastructure for plug-in electric vehicles. Projects funded by the grant must be completed by April 2013.

Through December 31, 2010, we have incurred $107 million of allowable, 50 percent reimbursable, smart grid project costs, and have submitted to the DOE requests for reimbursement of $47 million, of which we have received $34 million reimbursement.

Concerns about climate change and oil price volatility have led to proposed and enacted legislation at the federal and state levels to increase renewable energy and reduce GHG emissions.

The North Carolina Renewable Energy and Energy Efficiency Portfolio Standard (NC REPS) requires PEC to file an annual compliance report with the NCUC demonstrating the actions it has taken to comply with the NC REPS requirement. The rules measure compliance with the NC REPS requirement via renewable energy certificates earned after January 1, 2008. North Carolina electric power suppliers with a renewable energy compliance obligation, including PEC, are participating in the renewable energy certificate tracking system, which came online July 1, 2010. North Carolina law mandates that utilities achieve a targeted amount of energy from specified renewable energy resources or implementation of energy-efficiency measures beginning with a 3 percent requirement in 2012 escalating to 12.5 percent in 2021. PEC expects to be in compliance with this requirement.

In 2007, the governor of Florida issued executive orders to address reduction of GHG emissions. The executive orders include adoption of a maximum allowable emissions level of GHGs for Florida utilities, which will require, at a minimum, the following three reduction milestones: by 2017, emissions not greater than Year 2000 utility sector emissions; by 2025, emissions not greater than Year 1990 utility sector emissions; and by 2050, emissions not greater than 20 percent of Year 1990 utility sector emissions. The executive orders also requested that the FPSC initiate a rulemaking that would (1) require Florida utilities to produce at least 20 percent of their electricity from renewable sources; (2) reduce the cost of connecting solar and other renewable energy technologies to Florida's power grid by adopting uniform statewide interconnection standards for all utilities; and (3) authorize a uniform, statewide method to enable residential and commercial customers who generate electricity from onsite renewable technologies of up to 1 MW in capacity to offset their consumption over a billing period by allowing their electric meters to turn backward when they generate electricity (net metering).

In response to the executive orders, Florida energy law enacted in 2008 includes provisions that required the FPSC to develop a renewable portfolio standard that the FPSC would present to the legislature for ratification and also includes provisions that direct the Florida Department of Environmental Protection (FDEP) to develop rules establishing a cap-and-trade program to regulate GHG emissions that the FDEP would present to the legislature no earlier than January 2010 for ratification. To date, the Florida legislature has not ratified or enacted any renewable portfolio standard or cap-and-trade rules or programs. Until these agency actions are finalized, we cannot predict the outcome of this matter

Our balanced solution, as described in "Energy Demand," includes greater investment in energy efficiency, renewable energy and a state-of-the-art power system and demonstrates our commitment to environmental responsibility.

Energy Demand

Implementing state and federal energy policies, promoting environmental stewardship and providing reliable electricity to meet the anticipated long-term growth within the Utilities' service territories will require a balanced approach. The three main elements of this balanced solution are: (1) expanding our DSM and EE programs; (2) investing in the development of alternative energy resources for the future; and (3) operating a state-of-the-art power system.

We are continuing the expansion and enhancement of our DSM and EE programs because energy efficiency is one of the most effective ways to reduce energy costs, offset the need for new power plants and protect the environment. DSM programs include programs and initiatives that shift the timing of electricity use from peak to nonpeak periods, such as load management, electricity system and operating controls, direct load control, interruptible load, and electric system equipment and operating controls. Our previously discussed smart grid projects will aid in these initiatives. EE programs include any equipment, physical or program change that results in less energy used to perform the same function. We provide our residential customers with home energy audits and offer EE programs that provide incentives for customers to implement measures that reduce energy use. For business customers, we also provide energy audits and other tools, including an interactive Internet website with online calculators, programs and efficiency tips, to help them reduce their energy use.

We are actively engaged in a variety of alternative energy projects to pursue the generation of electricity from swine waste and other plant or animal sources, biomass, solar, hydrogen and landfill-gas technologies. Among our projects, we have executed contracts to purchase approximately 300 MW of electricity generated from biomass. This number includes 93 MW of biomass toward compliance with NC REPS. The majority of these projects should be online within the next five years. In addition, we have executed purchased power agreements for approximately 7 MW of electricity generated from solar photovoltaic generation as part of the NC REPS. More than half of these projects are online and the remainder should be online by the end of 2011. Additionally, customers across our service territory have connected approximately 4 MW of solar photovoltaic energy systems to our grid. In June 2009, we expanded our solar energy strategy to include a range of new solar incentives and programs, which are expected to significantly increase our use of solar energy over the next decade.

We are pursuing numerous options to create a state-of-the-art power system, including investments in smart grid technology and advanced environmental controls on our coal-fired plants. In the coming years, we will continue to invest in existing nuclear plants and evaluate plans for building or co-owning new generating plants. Due to the anticipated long-term growth in our service territories, retirement of existing coal generation and potential changes in environmental regulations, we are constructing new natural gas-fueled generating facilities in the Carolinas and we estimate that we will require new generating facilities in both Florida and the Carolinas in the first half of the next decade. In addition to nuclear generation, we are evaluating natural gas-fired plants, renewable generation resources, energy-efficiency initiatives and economic purchased power to meet this increased need. At this time, no definitive decisions have been made to construct or when to construct our proposed new nuclear plants (See "Nuclear – Potential New Construction") or to acquire new generation from another utility's regional nuclear project. In the near term, we will focus our efforts on modernizing the power system and pursuing all elements of a balanced portfolio while looking to new nuclear capacity as a critical part of the long-term mix.

In 2009, PEC announced a coal-to-gas modernization strategy whereby the 11 remaining coal-fired generating facilities in North Carolina that do not have scrubbers would be retired prior to the end of their useful lives and their approximately 1,500 MW of generating capacity replaced with new natural gas-fueled facilities. The original strategy called for the retirement of the coal-fired units by the end of 2017; however, we currently expect the plants will be retired no later than the end of 2014. PEC has received approval from the NCUC for construction of an approximately 950-MW natural gas-fueled generating facility at a site in Wayne County, N.C., to be placed in service in January 2013. PEC has also received approval from the NCUC to construct an approximately 620-MW natural gas-fueled generating facility at a site in New Hanover County, N.C., to replace the existing coal-fired generation at this site. The facility is projected to be placed in service in December 2013. After 2014, PEC will continue to operate its Roxboro, Mayo and Asheville coal-fired plants in North Carolina, which have state-of-the-art emission controls. Emissions of NOx, sulfur dioxide (SO_2), mercury and other pollutants have been reduced significantly at these sites.

In recent years, the federal government has authorized loan guarantee programs for innovative energy projects as well as newly constructed nuclear facilities. PEF decided not to pursue the loan guarantee program for the Levy project. However, this decision does not preclude PEF from revisiting the program at a later date if there are changes to the program. We cannot predict if PEF will pursue this program further.

Nuclear

Nuclear generating units are regulated by the NRC. In the event of noncompliance, the NRC has the authority to impose fines, set license conditions, shut down a nuclear unit or take some combination of these actions, depending upon its assessment of the severity of the situation, until compliance is achieved. Our nuclear units are periodically removed from service to accommodate normal refueling and maintenance outages, repairs, uprates and certain other modifications.

In September 2009, CR3 began an outage for normal refueling and maintenance, as well as its uprate project to increase its generating capacity and to replace two steam generators. During preparations to replace the steam generators, we discovered a delamination within the concrete of the outer wall of the containment structure, which has resulted in an extension of the outage. After a comprehensive analysis, we have determined that the concrete delamination at CR3 was caused by redistribution of stresses on the containment wall that occurred when we created an opening to accommodate the replacement of the unit's steam generators. We expect to complete repairs in March, and return the unit to service following successful completion of post-repair testing and start-up activities in April 2011. Nuclear safety remains our top priority, and our plans and actions will continue to reflect that commitment. A number of factors affect the return to service date, including regulatory reviews by the NRC and other agencies, emergent work, final engineering designs, testing, weather and other developments (See Note 7C).

PEC's nuclear units have operating licenses granted by the NRC that have been extended to 2030 and 2046. The NRC operating license held by PEF for CR3 currently expires in December 2016. On March 9, 2009, the NRC docketed, or accepted for review, PEF's application for a 20-year renewal on the operating license for CR3, which would extend the operating license through 2036, if approved. Docketing the application does not preclude additional requests for information as the review proceeds, nor does it indicate whether the NRC will renew the license. The license renewal application for CR3 is currently under review by the NRC with a decision expected in 2011.

POTENTIAL NEW CONSTRUCTION

While we have not made a final determination on nuclear construction, we continue to take steps to keep open the option of building a plant or plants. During 2008, PEC and PEF filed COL applications to potentially construct new nuclear plants in North Carolina and Florida. The NRC estimates that it will take approximately three to four years to review and process the COL applications. We have focused on the potential nuclear plant construction in Florida given the need for more fuel diversity in Florida and anticipated federal and state policies to reduce GHG emissions as well as existing state legislative policy that is supportive of nuclear projects.

In 2006, we announced that PEF selected Levy to evaluate for possible future nuclear expansion. We selected the Westinghouse Electric AP1000 reactor design as the technology upon which to base PEF's application submission. In 2007, PEF completed the purchase of approximately 5,000 acres for Levy and associated transmission needs. On July 30, 2008, PEF filed its COL application with the NRC for two reactors. PEF also completed and submitted a Limited Work Authorization request for Levy concurrent with the COL application. The FPSC issued the final order granting PEF's petition for the Determination of Need for Levy on August 12, 2008. On October 6, 2008, the NRC docketed the Levy nuclear project application. On February 24, 2009, PEF received the NRC's schedule for review and approval of the COL.

PEF's initial schedule anticipated performing certain site work pursuant to the Limited Work Authorization prior to COL receipt. However, in 2009, the NRC Staff determined that certain schedule-critical work that PEF had proposed to perform within the scope of the Limited Work Authorization will not be authorized until the NRC issues the COL. Consequently, excavation and foundation preparation work will be shifted until after COL issuance. This factor alone resulted in a minimum 20-month schedule shift later than the originally anticipated timeframe. Since then, regulatory and economic conditions have changed, resulting in additional schedule shifts. These conditions include the permitting and licensing process, national and state economic conditions, recent FPSC DSM goals and the resulting impact on ratepayers, and other FPSC decisions. Uncertainty regarding PEF's access to capital on reasonable terms, PEF's ability to secure joint owners and increasing uncertainty surrounding carbon regulation and its costs could be other factors to affect the Levy schedule.

PEF signed the EPC agreement on December 31, 2008, with Westinghouse Electric Company LLC and Stone & Webster, Inc. for two Westinghouse AP1000 nuclear units to be constructed at Levy. More than half of the approximate $7.650 billion contract price is fixed or firm with agreed upon escalation factors. The EPC agreement includes various incentives, warranties, performance guarantees, liquidated damage provisions and parent guarantees designed to incent the contractor to perform efficiently. For termination without cause, the EPC agreement contains exit provisions with termination fees, which may be significant, that vary based on the termination circumstances. We executed an amendment to the EPC agreement in 2010 due to the schedule shifts previously discussed. Additionally, in light of the schedule shifts in the Levy nuclear project, PEF may incur fees and charges related to the disposition of outstanding purchase orders on long lead time equipment for the Levy nuclear project, which could be material. In June 2010, PEF completed its long lead time equipment disposition analysis to minimize the impact associated with the schedule shift. As a result of the analysis, PEF will continue with selected components of the long lead time equipment. Work has been suspended on the remaining long lead time equipment items and PEF has been in suspension negotiations with the selected equipment vendors, which we anticipate concluding by the end of the first quarter of 2011. In its April 30, 2010 nuclear cost-recovery filing, PEF included for rate-making purposes a point estimate of potential Levy disposition fees and charges of $50 million, subject to true-up. However, the amount of disposition fees and charges, if any, cannot be determined until suspension negotiations are completed. We cannot predict the outcome of this matter

The total escalated cost for the two generating units was estimated in PEF's petition for the Determination of Need for Levy to be approximately $14 billion. This total cost estimate included land, plant components, financing costs, construction, labor, regulatory fees and the initial core for the two units. An additional $3 billion was estimated for the necessary transmission equipment and approximately 200 miles of transmission lines associated with the project. PEF's 2010 nuclear cost-recovery filing included an updated analysis that demonstrated continued feasibility of the Levy project with PEF's current estimated range of total escalated cost, including transmission, of $17.2 billion to $22.5 billion. The filed estimated cost range primarily reflects cost escalation resulting from the schedule shifts. Many factors will affect the total cost of the project and once PEF receives the COL, it will further refine the project timeline and budget. As previously discussed, we continue to evaluate the Levy project on an ongoing basis.

In 2006, we announced that PEC selected a site at Harris to evaluate for possible future nuclear expansion. We selected the Westinghouse Electric AP1000 reactor design as the technology upon which to base PEC's application submission. On February 19, 2008, PEC filed its COL application with the NRC for two additional reactors at Harris. On April 17, 2008, the NRC docketed the Harris application. If we receive approval from the NRC and applicable state agencies, and if the decisions to build are made, a new plant would not be online until the middle of the next decade (See "Energy Demand" above).

SPENT NUCLEAR FUEL MATTERS

The Nuclear Waste Policy Act of 1982 provides the framework for development by the federal government of interim storage and permanent disposal facilities for high-level radioactive waste materials. The Nuclear Waste Policy Act of 1982 promotes increased usage of interim storage of spent nuclear fuel at existing nuclear plants. We will continue to maximize the use of spent fuel storage capability within our own facilities for as long as feasible.

With certain modifications and additional approvals by the NRC, including the installation and/or expansion of on-site 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 renewals, for their nuclear generating units. Harris has sufficient storage capacity through the expiration of its renewed operating licenses.

See Note 22D for discussion of the status of the Utilities' contracts with the DOE for spent nuclear fuel storage.

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.

HAZARDOUS AND SOLID WASTE MANAGEMENT

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 liability. 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 parties (PRP) groups. Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under federal and state laws. PEC and PEF are each PRPs at several manufactured gas plant (MGP) sites. We are also currently in the process of assessing potential costs and exposures at other sites. These costs are eligible for regulatory recovery through either base rates or cost-recovery clauses (See Notes 7 and 21). Both PEC and PEF evaluate potential claims against other PRPs and insurance carriers and plan to submit claims for cost recovery where appropriate. The outcome of potential and pending claims cannot be predicted. Hazardous and solid waste management matters are discussed in detail in Note 21A.

We accrue costs 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 could change and additional losses, which could be material, may be incurred in the future.

In 2009, the EPA evaluated information about ash impoundment dams nationwide and developed a listing of 44 utility ash impoundment dams considered to have "high hazard potential," including two of PEC's ash impoundment dams. A "high hazard potential" rating is not related to the stability of those ash ponds but to the potential for harm should the impoundment dam fail. All of the dams at PEC's coal ash ponds have been subject to periodic third-party inspection for many years in accordance with prior applicable requirements. The EPA rated the 44 "high hazard potential" impoundments, as well as other impoundments, from "unsatisfactory" to "satisfactory" based on their structural integrity and associated documentation.

Only dams rated as "unsatisfactory" would be considered to pose an immediate safety threat. None of the facilities received an "unsatisfactory" rating from the EPA. In total, six of PEC's ash pond dams, including one "high hazard potential" impoundment, were rated as "poor" based on the contract inspector's desire to see additional documentation and evaluations of vegetation management and minor erosion control. Inspectors applied the same criteria to both active and inactive ash ponds, despite the fact that most of the inactive ash impoundments no longer hold water and do not pose a risk of breaching and spilling. PEC has completed several of the EPA's recommendations for the active ponds and other recommended actions are under way. Following evaluations and inspections, engineers have determined that one ash pond dam requires modifications to comply with current standards for an extra margin of safety for slope stability. Design and permitting efforts for that work have been initiated. PEC is working with the North Carolina Dam Safety program to evaluate the remaining recommendations. We do not expect mitigation of these issues to have a material impact on our results of operations.

As of January 1, 2010, dams at utility fossil-fired power plants in North Carolina, including dams for ash ponds, are subject to the North Carolina Dam Safety Act's applicable provisions, including state inspection. Those provisions are under the purview of the North Carolina Division of Land Resources. The division has completed its initial inspections of all of PEC's dams. No significant issues were found

The EPA and a number of states are considering additional regulatory measures that may affect management, treatment, marketing and disposal of coal combustion residues, primarily ash, from each of the Utilities' coal-fired plants. Revised or new laws or regulations under consideration may impose changes in solid waste classifications or groundwater protection environmental controls. On June 21, 2010, the EPA proposed two options for new rules to regulate coal combustion residues. The first option would create a comprehensive program of federally enforceable requirements for coal combustion residue management and disposal as hazardous waste. The other option would have the EPA set performance standards for coal combustion residues management facilities and regulate disposal of coal combustion residues as nonhazardous waste. The EPA did not identify a preferred option. Under both options, the EPA may leave in place a regulatory exemption for approved beneficial uses of coal combustion residuals that are recycled. A final rule is expected in late 2011 or 2012. Compliance plans and estimated costs to meet the requirements of new regulations will be determined when any new regulations are finalized. We are also evaluating the effect on groundwater quality from past and current operations, which may result in operational changes and additional measures under existing regulations. These issues are also under evaluation by state agencies. Certain regulated chemicals have been measured in wells near our ash ponds at levels above groundwater quality standards. Additional monitoring and investigation will be conducted. Detailed plans and cost estimates will be determined if these evaluations reveal that corrective actions are necessary. We cannot predict the outcome of this matter.

AIR QUALITY AND WATER QUALITY

We are, or may ultimately be, subject to various current and proposed federal, state and local environmental compliance laws and regulations, which likely would result in increased capital expenditures and O&M expenses. Additionally, Congress may be considering legislation that would require reductions in air emissions of NOx, SO_2, carbon dioxide (CO_2) and mercury. Some proposals establish nationwide caps and emission rates over an extended period of time. This national multipollutant approach to air pollution control could involve significant capital costs that could be material to our financial position or results of operations. Control equipment installed pursuant to the provisions of CAIR, Clean Air Visibility Rule (CAVR) and mercury regulations, which are discussed below, may address some of the issues outlined previously. PEC and PEF have been developing an integrated compliance strategy to meet the requirements of the CAIR, CAVR and mercury regulation (see discussion of the court decisions that impacted the CAIR, the delisting determination and the Clean Air Mercury Rule [CAMR] below). The CAVR requires the installation of best available retrofit technology (BART) on certain units. However, the outcome of these matters cannot be predicted.

Clean Smokestacks Act

In 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. PEC currently has approximately 5,000 MW of coal-fired generation capacity in North Carolina affected by the Clean Smokestacks Act. PEC's environmental compliance projects under the first phase of Clean Smokestacks Act emission reductions have been placed in service. PEC plans to retire by the end of 2014, its remaining coal-fired generating facilities in North Carolina totaling 1,500 MW that do not have scrubbers and replace the generation capacity with new natural gas-fueled generating facilities, which should enable the utility to comply with the final Clean Smokestacks Act SO_2 emissions target that begins in 2013. We are continuing to evaluate various design, technology, generation and fuel options that could change expenditures required to maintain compliance with the Clean Smokestacks Act limits subsequent to 2013.

O&M expense increases with the operation of pollution control equipment due to the cost of reagents, additional personnel and general maintenance associated with the pollution control equipment. PEC is allowed to recover the cost of reagents and certain other costs under its fuel clause, the North Carolina retail portion of all other O&M expense is currently recoverable through base rates. In 2009, the SCPSC issued an order allowing PEC to begin deferring as a regulatory asset the depreciation expense that PEC incurs on its environmental compliance control facilities as well as the incremental O&M expenses that PEC incurs in connection with its environmental compliance control facilities.

Clean Air Interstate Rule

The CAIR, issued by the EPA, required the District of Columbia and 28 states, including North Carolina, South Carolina and Florida, to reduce NOx and SO_2 emissions. The CAIR set emission limits to be met in two phases beginning in 2009 and 2015, respectively, for NOx and beginning in 2010 and 2015, respectively, for SO_2. States were required to adopt rules implementing the CAIR, and the EPA approved the North Carolina CAIR, the South Carolina CAIR and the Florida CAIR.

The air quality controls installed to comply with NOx requirements under certain sections of the Clean Air Act (CAA) and the Clean Smokestacks Act, as well as PEC's plan to replace a portion of its coal-fired generation with natural gas-fueled generation, largely address the CAIR requirements for NOx for our North Carolina units at PEC. PEC and PEF met the 2009 phase I requirements for NOx and the 2010 phase I requirements of CAIR for NOx and SO_2 with a combination of emission reductions resulting from in-service emission control equipment and emission allowances. PEF's Crystal River Unit No. 4 (CR4) SO_2 and NOx emission control equipment was placed in service in May 2010 and PEF's Crystal River Unit No. 5 (CR5) SO_2 and NOx emission control equipment was placed in service in 2009.

In 2008, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Court of Appeals) initially vacated the CAIR in its entirety and subsequently remanded the rule without vacating it for the EPA to conduct further proceedings consistent with the court's prior opinion. On August 2, 2010, the EPA published the proposed Transport Rule, which is the regulatory program that will replace the CAIR when finalized. The proposed Transport Rule contains new emissions trading programs for NOx and SO_2 emissions as well as more stringent overall emissions targets. The EPA plans to finalize the Transport Rule in the spring of 2011. Due to significant investments in NOx and SO_2 emissions controls and fleet modernization projects completed or under way, we believe both PEC and PEF are well positioned to comply with the Transport Rule. The outcome of the EPA's rulemaking cannot be predicted. Because of the D.C. Court of Appeals' decision that remanded the CAIR, the current implementation of the CAIR continues to fulfill BART for NOx and SO_2 for BART-affected units under the CAVR. Should this determination change as the Transport Rule is promulgated, CAVR compliance eventually may require consideration of NOx and SO_2 emissions reductions in addition to particulate matter emissions reductions for BART-eligible units.

Under an agreement with the FDEP, PEF will retire Crystal River Units No. 1 and No. 2 coal-fired steam units (CR1 and CR2) and operate emission control equipment at CR4 and CR5. CR1 and CR2 will be retired after the second proposed nuclear unit at Levy completes its first fuel cycle, which was originally anticipated to be around 2020. As required, PEF has advised the FDEP of developments that will delay the retirement of CR1 and CR2 beyond the originally anticipated date as discussed in "Other Matters – Nuclear – Potential New Construction." We are currently evaluating the impacts of the Levy schedule on PEF's compliance with environmental regulations. We cannot predict the outcome of this matter.

Clean Air Mercury Rule

In 2008, the D.C. Court of Appeals vacated the CAMR. As a result, the EPA subsequently announced that it will develop a maximum achievable control technology (MACT) standard. The United States District Court for the District of Columbia has issued an order requiring the EPA to issue a final MACT standard for power plants by November 16, 2011. In addition, North Carolina adopted a state-specific requirement. The North Carolina mercury rule contains a requirement that all coal-fired units in the state install mercury controls by December 31, 2017, and requires compliance plan applications to be submitted in 2013. We are currently evaluating the impact of these decisions. The outcome of this matter cannot be predicted.

Clean Air Visibility Rule

The EPA's rule requires states to identify facilities, including power plants, built between August 1962 and August 1977 with the potential to produce emissions that affect visibility in certain specially protected areas, including national parks and wilderness areas, designated as Class I areas. To help restore visibility in those areas, states must require the identified facilities to install BART to control their emissions. PEC's BART-eligible units are Asheville Units No. 1 and No. 2, Roxboro Units No. 1, No. 2 and No. 3, and Sutton Unit No. 3. PEF's BART-eligible units are Anclote Units No. 1 and No. 2, CR1 and CR2. The reductions associated with BART begin in 2013. As discussed in Note 7B, Sutton Unit No. 3 is one of the coal-fired generating units that PEC plans to replace with combined cycle natural gas-fueled electric generation. As discussed previously, PEF and the FDEP announced an agreement under which PEF will retire CR1 and CR2 as coal-fired units.

The CAVR included the EPA's determination that compliance with the NOx and SO_2 requirements of the CAIR could be used by states as a BART substitute to fulfill BART obligations, but the states could require the installation of additional air quality controls if they did not achieve reasonable progress in improving visibility. The D.C. Court of Appeals' decision remanding the CAIR maintained its implementation such that CAIR satisfies BART for NOx and SO_2. Should this determination change as the Transport Rule is promulgated, CAVR compliance eventually may require consideration of NOx and SO_2 emissions in addition to particulate matter emissions for BART-eligible units. We are assessing the potential impact of BART and its implications with respect to our plans and estimated costs to comply with the CAVR. The FDEP finalized a Regional Haze implementation rule that goes beyond BART by requiring sources significantly impacting visibility in Class I areas to install additional controls by December 31, 2017. However, in the spring of 2010 the EPA indicated that the Reasonable Further Progress portion of the Regional Haze implementation rule is not approvable. In August 2010, the FDEP amended the rule by removing the Reasonable Further Progress provision, including the December 31, 2017, deadline for installation of additional controls, and instead will rely on current federal programs to achieve improvement in visibility. The outcome of these matters cannot be predicted.

Compliance Strategy

Both PEC and PEF have been developing an integrated compliance strategy to meet the requirements of the CAIR, the CAVR, mercury regulation and related air quality regulations. The air quality controls installed to comply with NOx requirements under certain sections of the CAA and the Clean Smokestacks Act, as well as PEC's plan to replace a portion of its coal-fired generation with natural gas-fueled generation, resulted in a reduction of the costs to meet PEC's CAIR requirements.

PEC's environmental compliance projects under the first phase of Clean Smokestacks Act emission reductions have been placed in service. PEF's environmental compliance projects have also been placed in service.

The FPSC approved PEF's petition to develop and implement an Integrated Clean Air Compliance Plan to comply with the CAIR, CAMR and CAVR and for recovery of prudently incurred costs necessary to achieve this strategy through the ECRC (see discussion previously regarding the vacating of the CAMR and remanding of the CAIR and its potential impact on CAVR). PEF's April 1, 2010 filing with the FPSC for true-up of final 2009 environmental costs included a review of the Integrated Clean Air Compliance Plan, which reconfirmed the efficacy of the recommended plan and included an estimated total project cost of approximately $1.1 billion to be spent through 2016, to plan, design, build and install pollution control equipment at the Anclote Plant, CR4 and CR5. The majority of the $1.1 billion estimated total project cost related to CR4 and CR5 projects, which have been placed in service. Additional costs may be incurred if pollution controls are required in order to comply with the requirements of the CAVR, as discussed previously, or to meet compliance requirements of the final Transport Rule. Subsequent rule interpretations, increases in the underlying material, labor and equipment costs, equipment availability, or the unexpected acceleration of compliance dates, among other things, could result in significant increases in our estimated costs to comply and acceleration of some projects. The outcome of this matter cannot be predicted.

Environmental Compliance Cost Estimates

Costs to comply with environmental laws and regulations are eligible for regulatory recovery through either base rates or cost-recovery clauses. The outcome of future petitions for recovery cannot be predicted. Our estimates of capital expenditures to comply with environmental laws and regulations are subject to periodic review and revision and may vary significantly. PEC is continuing to evaluate various design, technology and new generation options that could change expenditures required to maintain compliance with the Clean Smokestacks Act limits subsequent to 2013. Additional compliance plans for PEC and PEF to meet the requirements of the Transport Rule will be determined upon finalization of the rule. As a result of the decision remanding the CAIR, compliance plans and costs to meet the requirements of the CAVR are being reassessed and we cannot predict the impact that the EPA's further proceedings will have on our compliance with the CAVR requirements. Compliance plans to meet the requirements of a revised or new implementing rule for mercury will be determined upon finalization of the rule. Compliance plans to meet the requirements of a revised or new implementing rule under Section 316(b) of the Clean Water Act (Section 316(b)), as discussed below, will be determined upon finalization of the rule. The timing and extent of the costs for future projects will depend upon final compliance strategies. However, we believe that future costs to comply with new or subsequent rule interpretations could be significant.

North Carolina Attorney General Petition under Section 126 of the Clean Air Act

In 2004, the North Carolina attorney general filed a petition with the EPA, under Section 126 of the CAA, asking the federal government to force fossil fuel-fired power plants in 13 other states, including South Carolina, to reduce their NOx and SO_2 emissions. The state of North Carolina contends these out-of-state emissions interfere with North Carolina's ability to meet National Ambient Air Quality Standards (NAAQS) for ozone and particulate matter. In 2006, the EPA issued a final response denying the petition, and the North Carolina attorney general filed a petition in the D.C. Court of Appeals seeking a review of the agency's denial. In 2009, the D.C. Court of Appeals remanded the EPA's denial to the agency for reconsideration. The outcome of the remand proceeding cannot be predicted.

National Ambient Air Quality Standards

Environmental groups and 13 states filed a joint petition with the D.C. Court of Appeals arguing that the EPA's particulate matter rule does not adequately restrict levels of particulate matter, especially with respect to the annual and secondary standards. In 2009, the D.C. Court of Appeals remanded the annual and secondary standards to the EPA for further review and consideration. The outcome of this matter cannot be predicted.

In 2008, the EPA revised the 8-hour primary and secondary standards for the NAAQS for ground-level ozone. Additional nonattainment areas may be designated in PEC's and PEF's service territories as a result of these revised standards. A number of states, environmental groups and industry associations filed petitions against the revised NAAQS in the D.C. Court of Appeals. The EPA requested the D.C. Court of Appeals to suspend proceedings in the case while the EPA evaluates whether to maintain, modify or otherwise reconsider the revised NAAQS. In 2009, the EPA announced that it was reconsidering the level of the ozone NAAQS and it will stay plans to designate nonattainment areas until after the reconsideration has been completed.

On January 7, 2010, the EPA announced a proposed revision to the primary ozone NAAQS. In addition, the EPA proposed a cumulative seasonal secondary standard. The EPA plans to finalize the revisions by July 29, 2011, and to designate nonattainment areas by August 2012. The proposed revisions are significantly more stringent than the current NAAQS. Should additional nonattainment areas be designated in our service territories, we may be required to install additional emission controls at some of our facilities. The outcome of this matter cannot be predicted.

On January 25, 2010, the EPA announced a revision to the primary NAAQS for nitrogen dioxide. Historically, the standard for nitrogen dioxide has been an annual average. The EPA has retained the annual standard and added a new 1-hour NAAQS. In conjunction with proposing changes to the standard, the EPA is also requiring an increase in the coverage of the monitoring network, particularly near roadways where the highest concentrations are expected to occur due to traffic emissions. The EPA plans to designate nonattainment areas by January 2012. Currently, there are no monitors reporting violation of the new standard in PEC's or PEF's service territories, but the expanded monitoring network will provide additional data, which could result in additional nonattainment areas. The outcome of this matter cannot be predicted.

On June 22, 2010, the EPA published the final new 1-hour NAAQS for SO_2, which sets the limit at 75 parts per billion. The primary NAAQS on a 24-hour average basis and annual average will be eliminated under the new rule. The new 1-hour standard is a significant increase in the stringency of the standard and increases the risk of nonattainment, especially near uncontrolled coal-fired facilities. In addition, for the first time the EPA plans to use air quality modeling along with monitoring data in determining whether areas are attaining the new standard, which is likely to expand the number of nonattainment areas. Should additional nonattainment areas be designated in our service territories, we may be required to install additional emission controls at some of our facilities. The outcome of this matter cannot be predicted.

Water Quality

1. General

As a result of the operation of certain pollution control equipment required to comply with the air quality issues outlined previously, new sources of wastewater discharge will be generated at certain affected facilities. Integration of these new wastewater discharges into the existing wastewater treatment processes is currently ongoing and will result in permitting, construction and treatment requirements imposed on the Utilities now and into the future. The future costs of complying with these requirements could be material to our results of operations or financial position.

On September 15, 2009, the EPA concluded after a multi-year study of power plant wastewater discharges that current regulations have not kept pace with changes in the electric power industry since the regulations were issued in 1982, including addressing impacts to wastewater discharge from operation of air pollution control equipment. As a result, the EPA has announced that it plans to revise the regulations that govern wastewater discharge, which may result in operational changes and additional compliance costs in the future. The outcome of this matter cannot be predicted.

2. Section 316(b) of the Clean Water Act

Section 316(b) requires cooling water intake structures to reflect the best technology available for minimizing adverse environmental impacts. The EPA promulgated a rule implementing Section 316(b) in respect to existing power plants in July 2004.

A number of states, environmental groups and others sought judicial review of the July 2004 rule. In 2007, the

U.S. Court of Appeals for the Second Circuit issued an opinion and order remanding provisions of the rule to the EPA, and the EPA suspended the rule pending further rulemaking, with the exception of the requirement that permitted facilities must meet any requirements under Section 316(b) as determined by the permitting authorities on a case-by-case, best professional judgment basis. Following appeal, in 2009, the U.S. Supreme Court issued an opinion holding that the EPA, in selecting the "best technology" pursuant to Section 316(b), does have the authority to reject technology when its costs are "wholly disproportionate" to the benefits expected. Also, the U.S. Supreme Court held that EPA's site-specific variance procedure (contained in the July 2004 rule) was permissible in that the procedure required testing to determine whether costs would be "significantly greater than" the benefits before a variance would be considered. As a result of these developments, our plans and associated estimated costs to comply with Section 316(b) will need to be reassessed and determined in accordance with any revised or new implementing rule after it is established by the EPA. Costs of compliance with a revised or new implementing rule are expected to be higher, and could be significantly higher, than estimated costs under the July 2004 rule. Our cost estimates to comply with the July 2004 rule were $60 million to $90 million. In December 2010, consent decrees were entered in two pending federal actions brought by environmental groups against the EPA requiring the EPA to issue proposed Section 316(b) rules by March 14, 2011, and to issue a final decision by July 27, 2012. The outcome of this matter cannot be predicted.

OTHER ENVIRONMENTAL MATTERS

Climate Change

Growing state, federal and international attention to global climate change may result in the regulation of CO_2 and other GHGs. In addition, the Obama administration has begun the process of regulating GHG emissions through use of the CAA. In 2007, the U.S. Supreme Court ruled that the EPA has the authority under the CAA to regulate CO_2 emissions from new automobiles. In 2009, the EPA announced that six GHGs (CO_2, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride) pose a threat to public health and welfare under the CAA. A number of parties have filed petitions for review of this finding in the D.C. Court of Appeals. On December 23, 2010, the EPA announced a schedule for development of a new source performance standard for new and existing fossil fuel-fired electric utility units. Under the schedule, the EPA will propose the standard by July 2011 and issue the final rule by May 2012. The full impact of regulation under GHG initiatives and any final legislation, if enacted, cannot be determined at this time, however, we anticipate that it could result in significant cost increases over time for which the Utilities would seek corresponding rate recovery. We are preparing for a carbon-constrained future and are actively engaged in helping shape effective policies to address the issue.

The state of Florida's 2008 comprehensive energy legislation included a directive that the FDEP develop rules to establish a cap-and-trade program to regulate GHG emissions that would be presented to the legislature. The FDEP has studied GHG policy options and the potential economic impacts, but it has not developed a regulation for the consideration of the legislature. While state-level study groups have been active in all three of our jurisdictions, we continue to believe that this issue requires a national policy framework – one that provides certainty and consistency. Our balanced solution as discussed in "Other Matters – Energy Demand" is a comprehensive plan to meet the anticipated demand in the Utilities' service territories and provides a solid basis for slowing and reducing CO_2 emissions by focusing on energy efficiency, alternative energy and a state-of-the-art power system.

There are ongoing efforts to reach a new international climate change treaty to succeed the Kyoto Protocol. The Kyoto Protocol was originally adopted by the United Nations to address global climate change by reducing emissions of CO_2 and other GHGs. Although the treaty went into effect in 2005, the United States has not adopted it. In 2009, the United Nations Framework Convention on Climate Change convened the 15th Conference of the Parties to conduct further negotiations on GHG emissions reductions. At the conclusion of the conference, a number of the parties, including the United States, entered into a nonbinding accord calling upon the parties to submit emission reduction targets for 2020 to the United Nations Framework Convention on Climate Change Secretariat by the end of January 2010. On January 28, 2010, President Obama submitted a proposal to reduce the U.S. GHG emissions in the range of 17 percent below 2005 levels by 2020, subject to future congressional action.

Reductions in CO_2 emissions to the levels specified by the Kyoto Protocol, potential new international treaties or federal or state proposals could be materially adverse to our financial position or results of operations if associated costs of control or limitation cannot be recovered from ratepayers. The cost impact of legislation or regulation to address global climate change would depend on the specific legislation or regulation enacted and cannot be determined at this time

In 2009, the EPA issued the final GHG emissions reporting rule, which establishes a national protocol for the reporting of annual GHG emissions. Facilities that emit greater than 25,000 metric tons per year of GHGs must report emissions by March 31 of each year beginning in 2011 for year 2010 emissions. Because the rule builds on current emission-reporting requirements, compliance with the requirements is not expected to have a material impact on the Utilities.

On April 1, 2010, the EPA and the National Highway Transportation Safety Administration jointly announced the first regulation of GHG emissions from new vehicles. The EPA is regulating mobile source GHG emissions under Section 202 of the CAA, which according to the EPA also results in stationary sources, such as coal-fired power plants, being subject to regulation of GHG emissions under the CAA. On March 29, 2010, the EPA issued an interpretation that stationary source GHG emissions will be subject to regulation under the CAA beginning in January 2011. On May 13, 2010, the EPA issued the final "tailoring rule," which establishes the thresholds for applicability of the Prevention of Significant Deterioration program permitting requirements for GHG emissions from stationary sources such as power plants and manufacturing facilities. Prevention of significant deterioration is a construction air pollution permitting program designed to ensure air quality does not degrade beyond the NAAQS levels or beyond specified incremental amounts above a prescribed baseline level. The tailoring rule initially raises the permitting applicability threshold for GHG emissions to 75,000 tons per year, and it requires that the permitting requirements for GHG emissions from stationary sources begin on January 2, 2011. These developments require PEC and PEF to address GHG emissions in new air quality permits beginning in 2011. The impact of these developments cannot be predicted.

Synthetic Fuels Tax Credits

Historically, we had substantial operations associated with the production of coal-based solid synthetic fuels as defined under Section 29 of the Internal Revenue Code (the Code) (Section 29) and as redesignated effective 2006 as Section 45K of the Code (Section 45K) as discussed below. The production and sale of these products qualified for federal income tax credits so long as certain requirements were satisfied. Qualifying synthetic fuels facilities entitled their owners to federal income tax credits based on the barrel of oil equivalent of the synthetic fuels produced and sold by these plants. The synthetic fuels tax credit program expired at the end of 2007, and the synthetic fuels businesses were abandoned and reclassified to discontinued operations.

The amount of Section 29 tax credits that we were allowed to claim in any calendar year through December 31, 2005, was limited by the amount of our regular federal income tax liability. Section 29 tax credit amounts allowed but not utilized are carried forward indefinitely as deferred alternative minimum tax credits. Legislation enacted in 2005 redesignated Section 29 tax credits generated after January 1, 2006, as general business credits under Section 45K of the Code. The redesignation of Section 29 tax credits generated after January 1, 2006, as a Section 45K general business credit removed the regular federal income tax liability limit on synthetic fuels production and subjects the credits to a one-year carry back period and a 20-year carry forward period.

Total Section 29/45K credits generated under the synthetic fuels tax credit program (including those generated by Florida Progress prior to our acquisition) were $1.891 billion, $1.055 billion of which has been used through December 31, 2010, to offset regular federal income tax liability and $836 million is being carried forward as deferred tax credits that do not expire.

See Note 22D for additional discussion related to our previous synthetic fuels operations.

Legal

We are subject to federal, state and local legislation and court orders. The specific issues, the status of the issues, accruals associated with issue resolutions and our associated exposures are discussed in detail in Note 22D.

New Accounting Standards

See Note 2 for a discussion of the impact of new accounting standards.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various risks related to changes in market conditions. Market risk represents the potential loss arising from adverse changes in market rates and prices. 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 to the extent that the counterparty fails to perform under the contract. We minimize such risk by performing credit and financial reviews using a combination of financial analysis and publicly available credit ratings of such counterparties (See Note 17). Both PEC and PEF also have limited counterparty exposure for commodity hedges (primarily gas and oil hedges) by spreading concentration risk over a number of counterparties.

The following disclosures about market risk contain forward-looking statements that involve estimates, projections, goals, forecasts, assumptions, risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Please review "Safe Harbor for Forward-Looking Statements" for a discussion of the factors that may impact any such forward-looking statements made herein.

Certain market risks are inherent in our financial instruments, which arise from transactions entered into in the normal course of business. Our primary exposures are changes in interest rates with respect to our long-term debt and commercial paper, fluctuations in the return on marketable securities with respect to our NDT funds, changes in the market value of CVOs and changes in energy-related commodity prices.

These financial instruments are held for purposes other than trading. The risks discussed below do not include the price risks associated with nonfinancial instrument transactions and positions associated with our operations, such as purchase and sales commitments and inventory.

Interest Rate Risk

As part of our debt portfolio management and daily cash management, we have variable rate long-term debt and may have commercial paper and/or loans outstanding under our RCA facilities, which are also exposed to floating interest rates. Approximately 7 percent and 9 percent of consolidated debt had variable rates at December 31, 2010 and 2009, respectively.

Based on our variable rate long-term debt balances at December 31, 2010, a 100 basis point change in interest rates would result in an annual pre-tax interest expense change of approximately $9 million. We had no outstanding short-term debt at December 31, 2010.

From time to time, we use interest rate derivative instruments to adjust the mix between fixed and floating rate debt in our debt portfolio, to mitigate our exposure to interest rate fluctuations associated with certain debt instruments and to hedge interest rates with regard to future fixed-rate debt issuances.

The notional amounts of interest rate derivatives are not exchanged and do not represent exposure to credit loss. In the event of default by a counterparty, the exposure in the transaction is the cost of replacing the agreements at current market rates.

We use a number of models and methods to determine interest rate risk exposure and fair value of derivative positions. For reporting purposes, fair values and exposures of derivative positions are determined as of the end of the reporting period using the Bloomberg Financial Markets system.

In accordance with GAAP, interest rate derivatives that qualify as hedges are separated into one of two categories: cash flow hedges or fair value hedges. Cash flow hedges are used to reduce exposure to changes in cash flow due to fluctuating interest rates. Fair value hedges are used to reduce exposure to changes in fair value due to interest rate changes.

The following tables provide information, at December 31, 2010 and 2009, about our interest rate risk-sensitive instruments. The tables present principal cash flows and weighted-average interest rates by expected maturity dates for the fixed and variable rate long-term debt and Parent-obligated mandatorily redeemable preferred securities of trust. The tables also include estimates of the fair value of our interest rate risk-sensitive instruments based on quoted market prices for these or similar issues. For interest rate forward contracts, the tables present notional amounts and weighted-average interest rates by contractual mandatory termination dates for 2011 to 2015 and thereafter and the related fair value. Notional amounts are used to calculate the settlement amounts under the interest rate forward contracts. See Note 17 for more information on interest rate derivatives.

(dollars in millions) December 31, 2010	2011	2012	2013	2014	2015	Thereafter	Total	Fair Value December 31, 2010
Fixed-rate long-term debt	$1,000	$950	$830	$300	$1,000	$7,449	$11,529	$12,826
Average interest rate	6.96%	6.67%	4.96%	6.05%	5.18%	6.18%	6.11%	
Variable-rate long-term debt	–	–	–	–	–	$861	$861	$861
Average interest rate	–	–	–	–	–	0.53%	0.53%	
Debt to affiliated trust[a]	–	–	–	–	–	$309	$309	$315
Interest rate	–	–	–	–	–	7.10%	7.10%	
Interest rate forward contracts[b]	$550	$400	$100	–	–	–	$1,050	$(35)
Average pay rate	4.19%	4.23%	4.37%	–	–	–	4.22%	
Average receive rate	[c]	[c]	[c]	–	–	–	[c]	

[a] Florida Progress Funding Corporation - Junior Subordinated Deferrable Interest Notes.
[b] Notional amount of 10-year forward starting swaps are categorized by mandatory cash settlement date.
[c] Rate is 3-month London Inter Bank Offered Rate (LIBOR), which was 0.30% at December 31, 2010.

During January 2011, Progress Energy terminated $300 million notional of forward starting swaps in conjunction with the issuance of $500 million of 4.40% Senior Notes.

At December 31, 2010, Progress Energy had $1.050 billion notional of open forward starting swaps.

(dollars in millions) December 31, 2009	2010	2011	2012	2013	2014	Thereafter	Total	Fair Value December 31, 2009
Fixed-rate long-term debt	$306	$1,000	$950	$825	$300	$7,864	$11,245	$12,126
Average interest rate	4.53%	6.96%	6.67%	4.96%	6.05%	6.13%	6.12%	
Variable-rate long-term debt	$100	–	–	–	–	$861	$961	$961
Average interest rate	0.73%	–	–	–	–	0.45%	0.48%	
Debt to affiliated trust[a]	–	–	–	–	–	$309	$309	$315
Interest rate	–	–	–	–	–	7.10%	7.10%	
Interest rate forward contracts[b]	$75	$150	$100	–	–	–	$325	$19
Average pay rate	3.48%	4.03%	4.07%	–	–	–	3.91%	
Average receive rate	[c]	[c]	[c]	–	–	–	[c]	

[a] Florida Progress Funding Corporation - Junior Subordinated Deferrable Interest Notes.
[b] Notional amount of 10-year forward starting swaps are categorized by mandatory cash settlement date.
[c] Rate is 3-month LIBOR, which was 0.25% at December 31, 2009.

At December 31, 2009, Progress Energy had $325 million notional of open forward starting swaps.

Marketable Securities Price Risk

The Utilities maintain trust funds, pursuant to NRC requirements, to fund certain costs of decommissioning their nuclear plants. These funds are primarily invested in stocks, bonds and cash equivalents, which are exposed to price fluctuations in equity markets and to changes in interest rates. At December 31, 2010 and December 31, 2009, the fair value of these funds was $1.571 billion and $1.367 billion, respectively. We actively monitor our portfolio by benchmarking the performance of our investments against certain indices and by maintaining, and periodically reviewing, target allocation percentages for various asset classes. The accounting for nuclear decommissioning recognizes that the Utilities' regulated electric rates provide for recovery of these costs net of any trust fund earnings, and, therefore, fluctuations in trust fund marketable security returns do not affect earnings. See Note 13 for further information on the trust fund securities.

Contingent Value Obligations Market Value Risk

CVOs are recorded at fair value, and unrealized gains and losses from changes in fair value are recognized in earnings. At December 31, 2010 and December 31, 2009, the fair value of CVOs was $15 million. We perform sensitivity analyses to estimate our exposure to the market risk of the CVOs. The sensitivity analyses performed on the CVOs uses quoted prices obtained from brokers or quote services to measure the potential loss in earnings from a hypothetical 10 percent adverse change in market prices over the next 12 months. A hypothetical 10 percent increase in the December 31, 2010 market price would result in a $2 million increase in the fair value of the CVOs and a corresponding increase in the CVO liability.

Commodity Price Risk

We are exposed to the effects of market fluctuations in the price of natural gas, coal, fuel oil, electricity and other energy-related products marketed and purchased as a result of our ownership of energy-related assets. Our exposure to these fluctuations is significantly limited by the cost-based regulation of the Utilities. Each state commission allows electric utilities to recover certain of these costs through various cost-recovery clauses to the extent the respective commission determines that such costs are prudent. Therefore, while there may be a delay in the timing between when these costs are incurred and when these costs are recovered from the ratepayers, changes from year to year have no material impact on operating results. In addition, most of our long-term power sales contracts shift substantially all fuel price risk to the purchaser.

Most of our physical commodity contracts are not derivatives or qualify as normal purchases or sales. Therefore, such contracts are not recorded at fair value. At December 31, 2010, substantially all derivative commodity instrument positions were subject to retail regulatory treatment.

See Note 17 for additional information with regard to our commodity contracts and use of economic and cash flow derivative financial instruments.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

It is the responsibility of Progress Energy's management to establish and maintain adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. Progress Energy's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Progress Energy; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America; (3) provide reasonable assurance that receipts and expenditures of Progress Energy are being made only in accordance with authorizations of management and directors of Progress Energy; and (4) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Progress Energy's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Progress Energy's internal control over financial reporting at December 31, 2010. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of Progress Energy's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit and Corporate Performance Committee (Audit Committee) of the board of directors.

Based on our assessment, management determined that, at December 31, 2010, Progress Energy maintained effective internal control over financial reporting.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited the internal control over financial reporting of Progress Energy as of December 31, 2010, as stated in their report.

William D. Johnson

William D. Johnson
Chairman, President and Chief Executive Officer

Mark F. Mulhern

Mark F. Mulhern
Senior Vice President and Chief Financial Officer

February 28, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Progress Energy, Inc and subsidiaries (the "Company") as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2010 of the Company, and our report dated February 28, 2011, expressed an unqualified opinion on those consolidated financial statements.

Deloitte + Touche LLP

Raleigh, North Carolina
February 28, 2011

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 subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income, changes in total equity, and cash flows for each of the three years in the period ended December 31, 2010. 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 Progress Energy, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, 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, 2011, expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte + Touche LLP

Raleigh, North Carolina
February 28, 2011

CONSOLIDATED STATEMENTS OF INCOME

(in millions except per share data)

Years ended December 31	**2010**	2009	2008
Operating revenues	**$10,190**	$9,885	$9,167
Operating expenses			
Fuel used in electric generation	**3,300**	3,752	3,021
Purchased power	**1,279**	911	1,299
Operation and maintenance	**2,027**	1,894	1,820
Depreciation, amortization and accretion	**920**	986	839
Taxes other than on income	**580**	557	508
Other	**30**	13	(3)
Total operating expenses	**8,136**	8,113	7,484
Operating income	**2,054**	1,772	1,683
Other income (expense)			
Interest income	**7**	14	24
Allowance for equity funds used during construction	**92**	124	122
Other, net	**–**	6	(17)
Total other income, net	**99**	144	129
Interest charges			
Interest charges	**779**	718	679
Allowance for borrowed funds used during construction	**(32)**	(39)	(40)
Total interest charges, net	**747**	679	639
Income from continuing operations before income tax	**1,406**	1,237	1,173
Income tax expense	**539**	397	395
Income from continuing operations	**867**	840	778
Discontinued operations, net of tax	**(4)**	(79)	58
Net income	**863**	761	836
Net income attributable to noncontrolling interests, net of tax	**(7)**	(4)	(6)
Net income attributable to controlling interests	**$856**	$757	$830
Average common shares outstanding – basic	**291**	279	262
Basic and diluted earnings per common share			
Income from continuing operations attributable to controlling interests, net of tax	**$2.96**	$2.99	$2.95
Discontinued operations attributable to controlling interests, net of tax	**(0.01)**	(0.28)	0.22
Net income attributable to controlling interests	**$2.95**	$2.71	$3.17
Dividends declared per common share	**$2.480**	$2.480	$2.465
Amounts attributable to controlling interests			
Income from continuing operations, net of tax	**$860**	$836	$773
Discontinued operations, net of tax	**(4)**	(79)	57
Net income attributable to controlling interests	**$856**	$757	$830

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

(in millions)	**December 31, 2010**	December 31, 2009
ASSETS		
Utility plant		
Utility plant in service	**$29,708**	$28,353
Accumulated depreciation	**(11,567)**	(11,176)
Utility plant in service, net	**18,141**	17,177
Other utility plant, net	**220**	212
Construction work in progress	**2,205**	1,790
Nuclear fuel, net of amortization	**674**	554
Total utility plant, net	**21,240**	19,733
Current assets		
Cash and cash equivalents	**611**	725
Receivables, net	**1,033**	800
Inventory	**1,226**	1,325
Regulatory assets	**176**	142
Derivative collateral posted	**164**	146
Income taxes receivable	**52**	145
Prepayments and other current assets	**214**	248
Total current assets	**3,476**	3,531
Deferred debits and other assets		
Regulatory assets	**2,374**	2,179
Nuclear decommissioning trust funds	**1,571**	1,367
Miscellaneous other property and investments	**413**	438
Goodwill	**3,655**	3,655
Other assets and deferred debits	**325**	333
Total deferred debits and other assets	**8,338**	7,972
Total assets	**$33,054**	$31,236
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 500 million shares authorized, 293 million and 281 million shares issued and outstanding, respectively	**$7,343**	$6,873
Unearned ESOP shares (0 and 1 million shares, respectively)	**–**	(12)
Accumulated other comprehensive loss	**(125)**	(87)
Retained earnings	**2,805**	2,675
Total common stock equity	**10,023**	9,449
Noncontrolling interests	**4**	6
Total equity	**10,027**	9,455
Preferred stock of subsidiaries	**93**	93
Long-term debt, affiliate	**273**	272
Long-term debt, net	**11,864**	11,779
Total capitalization	**22,257**	21,599
Current liabilities		
Current portion of long-term debt	**505**	406
Short-term debt	**–**	140
Accounts payable	**994**	835
Interest accrued	**216**	206
Dividends declared	**184**	175
Customer deposits	**324**	300
Derivative liabilities	**259**	190
Accrued compensation and other benefits	**175**	167
Other current liabilities	**298**	239
Total current liabilities	**2,955**	2,658
Deferred credits and other liabilities		
Noncurrent income tax liabilities	**1,696**	1,196
Accumulated deferred investment tax credits	**110**	117
Regulatory liabilities	**2,635**	2,510
Asset retirement obligations	**1,200**	1,170
Accrued pension and other benefits	**1,514**	1,339
Derivative liabilities	**278**	240
Other liabilities and deferred credits	**409**	407
Total deferred credits and other liabilities	**7,842**	6,979
Commitments and contingencies (Notes 21 and 22)		
Total capitalization and liabilities	**$33,054**	$31,236

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions) Years ended December 31	**2010**	2009	2008
Operating activities			
Net income	**$863**	$761	$836
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization and accretion	**1,083**	1,135	957
Deferred income taxes and investment tax credits, net	**478**	220	411
Deferred fuel (credit) cost	**(2)**	290	(333)
Allowance for equity funds used during construction	**(92)**	(124)	(122)
Loss (gain) on sales of assets	**9**	2	(75)
Pension, postretirement and other employee benefits	**198**	135	71
Other adjustments to net income	**40**	134	64
Cash (used) provided by changes in operating assets and liabilities			
Receivables	**(200)**	26	233
Inventory	**98**	(99)	(237)
Derivative collateral posted	**(23)**	200	(340)
Other assets	**(1)**	14	(37)
Income taxes, net	**90**	(14)	(169)
Accounts payable	**125**	(26)	77
Accrued pension and other benefits	**(164)**	(285)	(39)
Other liabilities	**35**	(98)	(79)
Net cash provided by operating activities	**2,537**	2,271	1,218
Investing activities			
Gross property additions	**(2,221)**	(2,295)	(2,333)
Nuclear fuel additions	**(221)**	(200)	(222)
Purchases of available-for-sale securities and other investments	**(7,009)**	(2,350)	(1,590)
Proceeds from available-for-sale securities and other investments	**6,990**	2,314	1,534
Other investing activities	**61**	(1)	70
Net cash used by investing activities	**(2,400)**	(2,532)	(2,541)
Financing activities			
Issuance of common stock, net	**434**	623	132
Dividends paid on common stock	**(717)**	(693)	(642)
Payments of short-term debt with original maturities greater than 90 days	–	(629)	(176)
Proceeds from issuance of short-term debt with original maturities greater than 90 days	–	–	629
Net (decrease) increase in short-term debt	**(140)**	(381)	496
Proceeds from issuance of long-term debt, net	**591**	2,278	1,797
Retirement of long-term debt	**(400)**	(400)	(877)
Cash distributions to noncontrolling interests	**(6)**	(6)	(85)
Other financing activities	**(13)**	14	(26)
Net cash (used) provided by financing activities	**(251)**	806	1,248
Net (decrease) increase in cash and cash equivalents	**(114)**	545	(75)
Cash and cash equivalents at beginning of year	**725**	180	255
Cash and cash equivalents at end of year	**$611**	$725	$180
Supplemental disclosures			
Cash paid for interest, net of amount capitalized	**$709**	$701	$612
Cash (received) paid for income taxes	**(56)**	87	152
Significant noncash transactions			
Accrued property additions	**313**	252	334
Asset retirement obligation additions and estimate revisions	**(36)**	(384)	14

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY

	Common Stock Outstanding			Accumulated Other			
			Unearned ESOP	Comprehensive	Retained	Noncontrolling	Total
(in millions except per share data)	Shares	Amount	Shares	(Loss) Income	Earnings	Interests	Equity
Balance, December 31, 2007	**260**	**$6,028**	**$(37)**	**$(34)**	**$2,438**	**$84**	**$8,479**
Net income		–	–	–	830	6	836
Other comprehensive loss		–	–	(82)	–	–	(82)
Issuance of shares	4	132	–	–	–	–	132
Allocation of ESOP shares		13	12	–	–	–	25
Stock-based compensation expense		33	–	–	–	–	33
Dividends ($2.465 per share)		–	–	–	(646)	–	(646)
Distributions to noncontrolling interests		–	–	–	–	(85)	(85)
Contributions from noncontrolling interests		–	–	–	–	2	2
Other		–	–	–	–	(1)	(1)
Balance, December 31, 2008	**264**	**6,206**	**(25)**	**(116)**	**2,622**	**6**	**8,693**
Net income[a]		–	–	–	757	–	757
Other comprehensive income		–	–	29	–	–	29
Issuance of shares	17	623	–	–	–	–	623
Allocation of ESOP shares		8	13	–	–	–	21
Stock-based compensation expense		36	–	–	–	–	36
Dividends ($2.480 per share)		–	–	–	(704)	–	(704)
Distributions to noncontrolling interests		–	–	–	–	(1)	(1)
Other		–	–	–	–	1	1
Balance, December 31, 2009	**281**	**6,873**	**(12)**	**(87)**	**2,675**	**6**	**9,455**
Cumulative effect of change in accounting principle (Note 2)		**–**	**–**	**–**	**–**	**(2)**	**(2)**
Net income[a]		**–**	**–**	**–**	**856**	**3**	**859**
Other comprehensive loss		**–**	**–**	**(38)**	**–**	**–**	**(38)**
Issuance of shares	**12**	**434**	**–**	**–**	**–**	**–**	**434**
Allocation of ESOP shares		**9**	**12**	**–**	**–**	**–**	**21**
Stock-based compensation expense		**27**	**–**	**–**	**–**	**–**	**27**
Dividends ($2.480 per share)		**–**	**–**	**–**	**(726)**	**–**	**(726)**
Distributions to noncontrolling interests		**–**	**–**	**–**	**–**	**(2)**	**(2)**
Other		**–**	**–**	**–**	**–**	**(1)**	**(1)**
Balance, December 31, 2010	**293**	**$7,343**	**$–**	**$(125)**	**$2,805**	**$4**	**$10,027**

[a] For the year ended December 31, 2010, consolidated net income of $863 million includes $4 million attributable to preferred shareholders of subsidiaries, which is not a component of total equity and is excluded from the table above. For the year ended December 31, 2009, *consolidated net income of $761 million* includes $4 million attributable to preferred shareholders of subsidiaries, which is not a component of total equity and is excluded from the table above.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)			
Years ended December 31	**2010**	2009	2008
Net income	**$863**	$761	$836
Other comprehensive income (loss)			
Reclassification adjustments included in net income			
Change in cash flow hedges (net of tax expense of $4, $4 and $2)	**6**	6	3
Change in unrecognized items for pension and other postretirement benefits (net of tax expense of $2, $3 and $1)	**3**	4	1
Net unrealized (losses) gains on cash flow hedges (net of tax benefit (expense) of $22, $(10) and $24)	**(34)**	16	(37)
Net unrecognized items for pension and other postretirement benefits (net of tax benefit (expense) of $8, $(1) and $29)	**(13)**	2	(49)
Other (net of tax benefit of $-, $- and $1)	**–**	1	–
Other comprehensive (loss) income	**(38)**	29	(82)
Comprehensive income	**825**	790	754
Comprehensive income attributable to noncontrolling interests, net of tax	**(7)**	(4)	(6)
Comprehensive income attributable to controlling interests	**$818**	$786	$748

See Notes to Consolidated 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." Additionally, we may collectively refer to our electric utility subsidiaries, Progress Energy Carolinas (PEC) and Progress Energy Florida (PEF), as the "Utilities."

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Parent is a public utility holding company headquartered in Raleigh, N.C. As such, we are subject to regulation by the Federal Energy Regulatory Commission (FERC).

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

PEC is subject to the regulatory jurisdiction of the North Carolina Utilities Commission (NCUC), Public Service Commission of South Carolina (SCPSC), the United States Nuclear Regulatory Commission (NRC) and the FERC.

PEF is subject to the regulatory jurisdiction of the Florida Public Service Commission (FPSC), the NRC and the FERC.

See Note 19 for further information about our segments.

B. Basis of Presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), including GAAP for regulated operations. The financial statements include the activities of the Parent and our majority-owned and controlled subsidiaries. Significant intercompany balances and transactions have been eliminated in consolidation.

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

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

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

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

Certain amounts for 2009 and 2008 have been reclassified to conform to the 2010 presentation.

C. Consolidation of Variable Interest Entities

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

In June 2009, the Financial Accounting Standards Board (FASB) issued new guidance that made significant changes to the model for determining who should consolidate a VIE and addressed how often this assessment should be performed. The guidance was effective for us on January 1, 2010 (See Note 2). As a result of the adoption, we deconsolidated two entities that qualify for low-income housing tax credits under Section 42 of the Internal Revenue Code (the Code) and recognized a $(2) million cumulative effect of change in accounting principle in 2010.

Progress Energy, through its subsidiary PEC, is the managing member, and primary beneficiary of, and consolidates an entity that qualifies for rehabilitation tax credits under Section 47 of the Code. Our variable interests are debt and equity investments in the VIE. There were no changes to our assessment of the primary beneficiary for this VIE during 2008 through 2010. No financial or other support has been provided to the VIE during the periods presented.

The following table sets forth the carrying amount and classification of our investment in the partnership as reflected in the Consolidated Balance Sheets at December 31:

(in millions)	**2010**	2009
Miscellaneous other property and investments	**$12**	$17
Other assets and deferred debits	**1**	1
Accounts payable	**5**	4

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

Progress Energy, through its subsidiary PEC, is the primary beneficiary of two VIEs that were established to lease buildings to PEC under capital lease agreements. Our maximum exposure to loss from these leases is a $7.5 million mandatory fixed price purchase option for one of the buildings. Total lease payments to these counterparties under the lease agreements were $2 million annually in 2008, 2009 and 2010. We have requested the necessary information to consolidate these entities; both entities from which the necessary financial information was requested declined to provide the information to us, and, accordingly, we have applied the information scope exception provided by GAAP to the entities. We believe the effect of consolidating the entities would have an insignificant impact on our common stock equity, net earnings or cash flows. However, because we have not received any financial information from the counterparties, the impact cannot be determined at this time.

D. Significant Accounting Policies

USE OF ESTIMATES AND ASSUMPTIONS

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

REVENUE RECOGNITION

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

FUEL COST DEFERRALS

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

EXCISE TAXES

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

The amount of gross receipts tax, franchise taxes and other excise taxes included in operating revenues and taxes other than on income in the Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008 were $345 million, $333 million and $295 million, respectively.

RELATED PARTY TRANSACTIONS

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

UTILITY PLANT

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

Allowance for funds used during construction (AFUDC) represents the estimated costs of capital funds necessary to finance the construction of new regulated assets. As prescribed in the regulatory uniform system of accounts, AFUDC is charged to the cost of the plant. The equity funds portion of AFUDC is credited to other income, and the borrowed funds portion is credited to interest charges.

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

DEPRECIATION AND AMORTIZATION – UTILITY PLANT

Substantially all depreciation of utility plant other than nuclear fuel is computed on the straight-line method based on the estimated remaining useful life of the property, adjusted for estimated salvage (See Note 4A). Pursuant to their rate-setting authority, the NCUC, SCPSC and FPSC can also grant approval to accelerate or reduce depreciation and amortization rates of utility assets (See Note 7).

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

FEDERAL GRANT

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

In accounting for the federal grant, we have elected to reduce the cost basis of select smart grid projects. As the select capital projects are placed into service, this will reduce depreciation expense over the life of the assets. Reimbursements by the DOE are deferred as a short-term or long-term liability on the Consolidated Balance Sheets based on their expected date of application to the select projects.

ASSET RETIREMENT OBLIGATIONS

AROs are legal obligations associated with the retirement of certain tangible long-lived assets. The present values of retirement costs for which we have a legal obligation are recorded as liabilities with an equivalent amount added to the asset cost and depreciated over the useful life of the associated asset. The liability is then accreted over time by applying an interest method of allocation to the liability. Accretion expense is included in depreciation, amortization and accretion in the Consolidated Statements of Income. AROs have no impact on the income of the Utilities as the effects are offset by the establishment of regulatory assets and regulatory liabilities in order to reflect the ratemaking treatment of the related costs.

CASH AND CASH EQUIVALENTS

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

RECEIVABLES, NET

We record accounts receivable at net realizable value. This value includes an allowance for estimated uncollectible accounts to reflect any loss anticipated on the accounts receivable balances. The allowance for uncollectible accounts reflects our estimate of probable losses inherent in the accounts receivable, unbilled revenue, and other receivables balances. We calculate this allowance based on our history of write-offs, level of past due accounts, prior rate of recovery experience and relationships with and economic status of our customers.

INVENTORY

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

REGULATORY ASSETS AND LIABILITIES

The Utilities' operations are subject to GAAP for regulated operations, which allows a regulated company to record costs that have been or are expected to be allowed in the ratemaking process in a period different from the period in which the costs would be charged to expense by a nonregulated enterprise. Accordingly, the Utilities record assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for nonregulated entities. These regulatory assets and liabilities represent expenses deferred for future recovery from customers or obligations to be refunded to customers and are primarily classified in the Consolidated Balance Sheets as regulatory assets and regulatory liabilities (See Note 7A). The regulatory assets and liabilities are amortized consistent with the treatment of the related cost in the ratemaking process.

NUCLEAR COST DEFERRALS

PEF accounts for costs incurred in connection with the proposed nuclear expansion in Florida in accordance with FPSC regulations, which establish an alternative cost-recovery mechanism. PEF is allowed to accelerate the recovery of prudently incurred siting, preconstruction costs, AFUDC and incremental operation and maintenance expenses resulting from the siting, licensing, design and construction of a nuclear plant through PEF's capacity cost-recovery clause. Nuclear costs are deemed to be recovered up to the amount of the FPSC-approved projections, and the deferral of unrecovered nuclear costs accrues a carrying charge equal to PEF's approved AFUDC rate. Unrecovered nuclear costs eligible for accelerated recovery are deferred and recorded as regulatory assets in the Consolidated Balance Sheets and are amortized in the period the costs are collected from customers.

GOODWILL AND INTANGIBLE ASSETS

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

CHANGE IN ACCOUNTING POLICY REGARDING ANNUAL GOODWILL TESTING DATE

We perform our goodwill impairment tests for the PEC and PEF reporting units at least annually, and more often if events or changes in circumstances indicate it is more likely than not that their carrying values exceed their fair values. Since the adoption of Accounting Standards Codification (ASC) 350, Intangibles – Goodwill and Other, through April 1, 2010, we performed the annual impairment testing of goodwill using April 1 as the testing date. Our annual financial and strategic planning process, including the preparation of long-term cash flow projections, concludes in the fourth quarter of each year. Effective in October 2010, we changed our annual goodwill impairment testing date from April 1 to October 31 to better align our impairment testing procedures with the completion of our financial and strategic planning process. We believe the change is preferable since these long-term cash flow projections are a key component in performing our annual impairment tests of goodwill. During 2010, we tested our goodwill for impairment as of October 31, 2010 and April 1, 2010, and concluded there was no impairment of the carrying value of the goodwill. This change did not accelerate, delay, avoid, or cause a goodwill impairment charge. As it was impracticable to objectively determine operating and valuation estimates for periods prior to October 31, 2010, we have prospectively applied the change in the annual impairment testing date from October 31, 2010.

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

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

DERIVATIVES

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

LOSS CONTINGENCIES AND ENVIRONMENTAL LIABILITIES

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

As discussed in Note 21, we accrue environmental remediation liabilities when the criteria for loss contingencies have been met. We record accruals for probable and estimable costs, including legal fees, related to environmental sites on an undiscounted basis. Environmental expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as additional information develops or circumstances change. Certain environmental expenses receive regulatory accounting treatment, under which the expenses are recorded as regulatory assets. Recoveries of environmental remediation costs from other parties are recognized when their receipt is deemed probable or on actual receipt of recovery. Environmental expenditures that have future economic benefits are capitalized in accordance with our asset capitalization policy.

IMPAIRMENT OF LONG-LIVED ASSETS AND INVESTMENTS

We review the recoverability of long-lived tangible and intangible assets whenever impairment indicators exist. Examples of these indicators include current period losses, combined with a history of losses or a projection of continuing losses, or a significant decrease in the market price of a long-lived asset group. If an impairment indicator exists for assets to be held and used, then the asset group is tested for recoverability by comparing the carrying value to the sum of undiscounted expected future cash flows directly attributable to the asset group. If the asset group is not recoverable through undiscounted cash flows or the asset group is to be disposed of, then an impairment loss is recognized for the difference between the carrying value and the fair value of the asset group.

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

2. NEW ACCOUNTING STANDARDS

A. Consolidations

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

B. Fair Value Measurement and Disclosures

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

3. DIVESTITURES

We have completed our business strategy of divesting nonregulated businesses to reduce our business risk and focus on core operations of the Utilities. Included in discontinued operations, net of tax are amounts related to adjustments of our prior sales of diversified businesses. These adjustments are generally due to guarantees and indemnifications provided for certain legal, tax and environmental matters. See Note 22C for further discussion of our guarantees. The ultimate resolution of these matters could result in additional adjustments in future periods. The information below presents the impacts of the divestitures on net income attributable to controlling interests.

A. Terminals Operations and Synthetic Fuels Businesses

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

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

On October 21, 2009, a jury delivered a verdict in a lawsuit against Progress Energy and a number of our subsidiaries and affiliates. As a result, during the year ended December 31, 2009, we recorded an after-tax charge of $74 million to discontinued operations.

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

(in millions)	**2010**	2009	2008
Revenues	$–	$–	$17
(Loss) earnings before income taxes and noncontrolling interest	**$(11)**	$(125)	$8
Income tax benefit, including tax credits	**5**	47	12
Earnings attributable to noncontrolling interests	**–**	–	(1)
Net (loss) earnings from discontinued operations attributable to controlling interests	**(6)**	(78)	19
Gain on disposal of discontinued operations, net of income tax expense of $7	**–**	–	42
(Loss) earnings from discontinued operations attributable to controlling interests	**$(6)**	$(78)	$61

B. Coal Mining Businesses

On March 7, 2008, we sold the remaining operations of subsidiaries engaged in the coal mining business for gross cash proceeds of $23 million. Proceeds from the sale were used for general corporate purposes. As a result of the sale, during the year ended December 31, 2008, we recorded an after-tax gain of $7 million on the sale of these assets. During the years ended December 31, 2010 and 2009, gains and losses related to post-closing adjustments and pre-divestiture contingencies were not material to our results of operations.

The accompanying consolidated financial statements reflect the coal mining businesses as discontinued operations. Results of discontinued operations for the coal mining businesses for the year ended December 31, 2008 were as follows:

(in millions)	2008
Revenues	$2
Loss before income taxes	$(13)
Income tax benefit	4
Net loss from discontinued operations	(9)
Gain on disposal of discontinued operations, net of income tax expense of $2	7
Loss from discontinued operations attributable to controlling interests	$(2)

C. Other Diversified Businesses

Also included in discontinued operations are amounts related to adjustments of our prior sales of other diversified businesses. During the years ended December 31, 2010, 2009 and 2008, gains and losses related to post-closing adjustments and pre-divestiture contingencies of other diversified businesses were not material to our results of operations.

4. PROPERTY, PLANT AND EQUIPMENT

A. Utility Plant

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

(in millions)	Depreciable Lives	**2010**	2009
Production plant	3-41	**$16,042**	$15,477
Transmission plant	7-75	**3,530**	3,273
Distribution plant	13-67	**8,715**	8,376
General plant and other	5-35	**1,421**	1,227
Utility plant in service		**$29,708**	$28,353

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

As discussed in Note 7B, PEC intends to retire no later than December 31, 2014, all of its coal-fired generating facilities in North Carolina that do not have scrubbers. These facilities total approximately 1,500 megawatts (MW) at four sites. During the fourth quarter of 2010, Progress Energy reclassified, for all periods, the net carrying value of the four facilities from utility plant in service, net, to other utility plant, net, on the consolidated balance sheets, in accordance with ASC 980-360, Regulated Operations – Property, Plant and Equipment. At December 31, 2010 and 2009, the net carrying value of the four facilities included in other utility plant, net, totaled $172 million and $165 million, respectively. Consistent with current ratemaking treatment, PEC expects to include the four facilities' remaining net carrying value in rate base after retirement.

AFUDC represents the estimated costs of capital funds necessary to finance the construction of new regulated assets. As prescribed in the regulatory uniform systems of accounts, AFUDC is charged to the cost of the plant for certain projects in accordance with the regulatory provisions for each jurisdiction. The equity funds portion of AFUDC is credited to other income, and the borrowed funds portion is credited to interest charges. Regulatory authorities consider AFUDC an appropriate charge for inclusion in the rates charged to customers by the Utilities over the service life of the property. The composite AFUDC rate for PEC's electric utility plant was 9.2% in 2010, 2009 and 2008. The composite AFUDC rate for PEF's electric utility plant was 7.4%, effective beginning April 1, 2010, based on its authorized return on equity (ROE) approved in the base rate case (See Note 7C). Prior to April 1, 2010, the composite AFUDC rate for PEF's electric utility plant was 8.8%.

Our depreciation provisions on utility plant, as a percent of average depreciable property other than nuclear fuel, were 2.0%, 2.4% and 2.3% in 2010, 2009 and 2008, respectively. The depreciation provisions related to utility plant were $635 million, $626 million and $578 million in 2010, 2009 and 2008, respectively. In addition to utility plant depreciation provisions, depreciation, amortization and accretion expense also includes decommissioning cost provisions, ARO accretion, cost of removal provisions (See Note 4C), regulatory approved expenses (See Notes 7 and 21) and Clean Smokestacks Act amortization.

During 2010, PEF updated the depreciation rates which were approved by the FPSC in the 2009 base rate case. The rate change was effective January, 1, 2010, and resulted in a decrease in depreciation expense of $43 million for 2010. Additionally, in December 2010, PEF filed the FPSC approved depreciation rates with the FERC for use in its formula transmission rate for its Open Access Transmission Tariff (OATT). The FERC filing requested depreciation rates be applied retroactively to January 1, 2010 whereby if approved, the depreciation rate changes will result in a reduction to the depreciation expense charged to PEF's OATT customers, beginning June 1, 2011.

Nuclear fuel, net of amortization at December 31, 2010 and 2009, was $674 million and $554 million, respectively. The amount not yet in service at December 31, 2010 and 2009, was $367 million and $308 million, respectively. 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, was $132 million, $159 million and $145 million for the years ended December 31, 2010, 2009 and 2008, respectively. This amortization expense is included in fuel used in electric generation in the Consolidated Statements of Income.

PEF's construction work in progress related to certain nuclear projects has received regulatory treatment. At December 31, 2010, PEF had $519 million of accelerated recovery of construction work in process, of which $237 million was a component of a nuclear cost-recovery clause regulatory asset. At December 31, 2009, PEF had $451 million of accelerated recovery of construction work in process, of which $274 million was a component of a nuclear cost-recovery clause regulatory asset and $22 million was a component of a deferred fuel regulatory asset. See Note 7C for further discussion of PEF's nuclear cost recovery.

B. Joint Ownership of Generating Facilities

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

PEC's and PEF's ownership interests in the jointly owned generating facilities are listed below with related information at December 31

(in millions) Subsidiary	Facility	Company Ownership Interest	Plant Investment	Accumulated Depreciation	Construction Work in Progress
2010					
PEC	**Mayo**	83 83%	S798	S294	S8
PEC	**Harris**	83 83%	3,255	1,604	16
PEC	**Brunswick**	81.67%	1,702	939	38
PEC	**Roxboro Unit 4**	87 06%	706	457	22
PEF	**Crystal River Unit 3**	91 78%	901	497	648
PEF	**Intercession City Unit P11**	66 67%	23	11	–
2009					
PEC	Mayo	83.83%	S785	S282	S8
PEC	Harris	83 83%	3,207	1,651	28
PEC	Brunswick	81 67%	1,681	981	74
PEC	Roxboro Unit 4	87 06%	686	449	15
PEF	Crystal River Unit 3	91 78%	900	472	510
PEF	Intercession City Unit P11	66.67%	23	10	–

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.

In the tables above, construction work in process for Crystal River Unit 3 Nuclear Plant (CR3) is not reduced by the accelerated recovery of qualifying project costs under the FPSC nuclear cost-recovery rule (see Note 7C).

C. Asset Retirement Obligations

At December 31, 2010 and 2009, our asset retirement costs included in utility plant related to nuclear decommissioning of irradiated plant, net of accumulated depreciation totaled $90 million and $132 million, respectively. The fair value of funds set aside in the Utilities' nuclear decommissioning trust (NDT) funds for the nuclear decommissioning liability totaled $1 571 billion and $1.367 billion at December 31, 2010 and 2009, respectively (See Notes 12 and 13). Net NDT unrealized gains are included in regulatory liabilities (See Note 7A).

Our nuclear decommissioning cost provisions, which are included in depreciation and amortization expense, were $31 million each in 2010, 2009 and 2008. As discussed below, PEF has suspended its accrual for nuclear decommissioning. Management believes that nuclear decommissioning costs that have been and will be recovered through rates by PEC and PEF will be sufficient to provide for the costs of decommissioning. Expenses recognized for the disposal or removal of utility assets that do not meet the definition of AROs, which are included in depreciation, amortization and accretion expense, were $87 million, $141 million and $133 million in 2010, 2009 and 2008, respectively.

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)	**2010**	2009
Removal costs	**S1,503**	S1,536
Nonirradiated decommissioning costs	**233**	211
Dismantlement costs	**121**	119
Non-ARO cost of removal	**S1,857**	S1,866

The NCUC requires that PEC update its cost estimate for nuclear decommissioning every five years. PEC received a new site-specific estimate of decommissioning costs for Robinson Nuclear Plant (Robinson) Unit No. 2, Brunswick Nuclear Plant (Brunswick) Units No. 1 and No. 2, and Harris, in December 2009, which was filed with the NCUC on March 16, 2010. PEC's estimate is based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures currently at the site, with such removal occurring after operating license expiration. These decommissioning cost estimates also include interim spent fuel storage costs associated with maintaining spent nuclear fuel on site until such time that it can be transferred to a DOE facility (See Note 22D). These estimates, in 2009 dollars, were $687 million for Unit No. 2 at Robinson, $591 million for Brunswick Unit No. 1, $585 million for Brunswick Unit No. 2 and $1.126 billion for Harris. The estimates are subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimates exclude the portion attributable to North Carolina Eastern Municipal Power Agency (Power Agency), which holds an undivided ownership interest in Brunswick and Harris. See Note 7D for information about the NRC operating licenses held by PEC. Based on updated cost estimates, in 2009 PEC reduced its asset retirement cost net of accumulated depreciation and its ARO liability by approximately $27 million and $390 million, respectively, resulting in no asset retirement costs included in utility plant related to nuclear decommissioning of irradiated plant at December 31, 2009.

The FPSC requires that PEF update its cost estimate for nuclear decommissioning every five years. PEF received a new site-specific estimate of decommissioning costs for CR3 in October 2008, which PEF filed with the FPSC in 2009 as part of PEF's base rate filing (See Note 7C). However, the FPSC deferred review of PEF's nuclear decommissioning study from the rate case to be addressed in 2010 in order for FPSC staff to assess PEF's study in combination with other utilities anticipated to submit nuclear decommissioning studies in 2010. PEF was not required to prepare a new site-specific nuclear decommissioning study in 2010; however, PEF was required to update the 2008 study with the most currently available escalation rates in 2010, which was filed with the FPSC in December 2010. PEF's estimate is based on prompt dismantlement decommissioning and includes interim spent fuel storage costs associated with maintaining spent nuclear fuel on site until such time that it can be transferred to a DOE facility (See Note 22D). The estimate, in 2008 dollars, is $751 million and is subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimate excludes the portion attributable to other co-owners of CR3. See Note 7D for information about the NRC operating license held by PEF for CR3. Based on the 2008 estimate, assumed operating license renewal and updated escalation factors in 2010, PEF decreased its asset retirement cost to zero and its ARO liability by approximately $37 million in 2010. Retail accruals on PEF's reserves for nuclear decommissioning were previously suspended under the terms of previous base rate settlement agreements. PEF expects to continue this suspension based on its 2010 nuclear decommissioning filing. In addition, the wholesale accrual on PEF's reserves for nuclear decommissioning was suspended retroactive to January 2006, following a FERC accounting order issued in November 2006.

The FPSC requires that PEF update its cost estimate for fossil plant dismantlement every four years. PEF received an updated fossil dismantlement study estimate in 2008, which PEF filed with the FPSC in 2009 as part of PEF's base rate filing. As a result of the base rate case, the FPSC approved an annual fossil dismantlement accrual of $4 million. PEF's reserve for fossil plant dismantlement was approximately $144 million and $143 million at December 31, 2010 and 2009, including amounts in the ARO liability for asbestos abatement, discussed below.

The Utilities have recognized ARO liabilities related to asbestos abatement costs. The ARO liabilities related to asbestos abatement costs were $53 million and $54 million at December 31, 2010 and 2009, respectively.

Additionally, the Utilities have recognized ARO liabilities related to landfill capping costs. The ARO liabilities related to landfill capping costs were $6 million and $7 million at December 31, 2010 and 2009, respectively.

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

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

(in millions)	
Asset retirement obligations at January 1, 2009	$1,471
Accretion expense	83
Revisions to prior estimates	(384)
Asset retirement obligations at December 31, 2009	1,170
Additions	**4**
Accretion expense	**65**
Revisions to prior estimates	**(39)**
Asset retirement obligations at December 31, 2010	**$1,200**

D. Insurance

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

Insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at nuclear generating units is also provided through membership in NEIL. Both PEC and PEF are insured under this program, following a 12-week deductible period, for 52 weeks in the amounts ranging from $3.5 million to $4.5 million per week. Additional weeks of coverage ranging from 71 weeks to 110 weeks are provided at 80 percent of the above weekly amounts. For the current policy period, the companies are subject to retrospective premium assessments of up to approximately $28 million with respect to the primary coverage, $41 million with respect to the decontamination, decommissioning and excess property coverage, and $25 million for the incremental replacement power costs coverage, in the event covered losses at insured facilities exceed premiums, reserves, reinsurance and other NEIL resources. Pursuant to regulations of the NRC, each company's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place the plant in a safe and stable condition after an accident and, second, to decontaminate the plant, before any proceeds can be used for decommissioning, plant repair or restoration. Each company is responsible to the extent losses may exceed limits of the coverage described above. At December 31, 2010, PEF has an outstanding claim with NEIL (See Notes 5 and 7C).

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

Under the NEIL policies, if there were multiple terrorism losses within one year, NEIL would make available one industry aggregate limit of $3.240 billion for noncertified acts, along with any amounts it recovers from reinsurance, government indemnity or other sources up to the limits for each claimant. If terrorism losses occurred beyond the one-year period, a new set of limits and resources would apply.

The Utilities self-insure their transmission and distribution lines against loss due to storm damage and other natural disasters. PEF maintains a storm damage reserve and has a regulatory mechanism to recover the costs of named storms on an expedited basis (See Note 7C).

For loss or damage to non-nuclear properties, excluding self-insured transmission and distribution lines, the Utilities are insured under an all-risk property insurance program with a total limit of $600 million per loss. The basic deductible is $2.5 million per loss, and there is no outage or replacement power coverage under this program.

5. RECEIVABLES

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

(in millions)	**2010**	2009
Trade accounts receivable	**$651**	$581
Unbilled accounts receivable	**223**	193
Other receivables	**75**	44
NEIL receivable (See Notes 4 and 7)	**119**	–
Allowance for doubtful receivables	**(35)**	(18)
Total receivables, net	**$1,033**	$800

6. INVENTORY

At December 31 inventory was comprised of:

(in millions)	**2010**	2009
Fuel for production	**$542**	$667
Materials and supplies	**676**	639
Emission allowances	**8**	18
Other	**–**	1
Total inventory	**$1,226**	$1,325

Materials and supplies amounts above exclude long-term combustion turbine inventory amounts included in other assets and deferred debits on the Consolidated Balance Sheets of $24 million at December 31, 2009, which was transferred to PEC in 2010 and is included in construction work in progress on the Consolidated Balance Sheet at December 31, 2010.

Emission allowances above exclude long-term emission allowances included in other assets and deferred debits on the Consolidated Balance Sheets of $33 million and $39 million, respectively, at December 31, 2010 and 2009.

7. REGULATORY MATTERS

A. Regulatory Assets and Liabilities

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

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

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

(in millions)	2010	2009
Deferred fuel costs – current (Notes 7B and 7C)	**S169**	S105
Nuclear deferral (Notes 7C)	**7**	37
Total current regulatory assets	**176**	142
Deferred fuel cost – long-term	**–**	62
Nuclear deferral (Note 7C)[a]	**178**	239
Deferred impact of ARO (Note 4C)[b]	**122**	99
~~Income taxes recoverable through future rates[c]~~	~~**302**~~	~~264~~
Loss on reacquired debt[d]	**31**	35
Postretirement benefits (Note 16)[e]	**1,105**	945
Derivative mark-to-market adjustment (Note 17A)[f]	**505**	436
DSM / Energy-efficiency deferral (Note 7B)[g]	**57**	19
Other	**74**	80
Total long-term regulatory assets	**2,374**	2,179
Environmental (Note 7C)	**(45)**	(24)
Deferred energy conservation cost and other current regulatory liabilities	**(14)**	(3)
Total current regulatory liabilities	**(59)**	(27)
Non-ARO cost of removal (Note 4C)[b]	**(1,857)**	(1,866)
Deferred impact of ARO (Note 4C)[b]	**(143)**	(150)
Net nuclear decommissioning trust unrealized gains (Note 4C)[h]	**(421)**	(295)
Storm reserve (Note 7C)[i]	**(136)**	(136)
Other	**(78)**	(63)
Total long-term regulatory liabilities	**(2,635)**	(2,510)
Net regulatory liabilities	**S(144)**	S(216)

The recovery and amortization periods for these regulatory assets and (liabilities) at December 31, 2010, are as follows:

[a] Recorded and recovered or amortized as approved by the appropriate state utility commission over a period not exceeding five years.

[b] Asset retirement and removal liabilities are recorded over the related property lives, which may range up to 65 years, and will be settled and adjusted following completion of the related activities.

[c] Income taxes recoverable through future rates are recovered over the related property lives, which may range up to 65 years.

[d] Recovered over either the remaining life of the original issue or, if refinanced, over the life of the new issue, which may range up to 30 years.

[e] Recovered and amortized over the remaining service period of employees. In accordance with a 2009 FPSC order, PEF's 2009 deferred pension expense of S34 million will be amortized to the extent that annual pension expense is less than the S27 million allowance provided for in base rates (See Note 16).

[f] Related to derivative unrealized gains and losses that are recorded as a regulatory liability or asset, respectively, until the contracts are settled. After contract settlement and consumption of the related fuel, the realized gains or losses are passed through the fuel cost-recovery clause.

[g] Recorded and recovered or amortized as approved by the appropriate state utility commission over a period not exceeding 10 years.

[h] Related to unrealized gains and losses on NDT funds that are recorded as a regulatory asset or liability, respectively, until the funds are used to decommission a nuclear plant.

[i] Utilized as storm restoration expenses are incurred.

B. PEC Retail Rate Matters

BASE RATES

PEC's base rates are subject to the regulatory jurisdiction of the NCUC and SCPSC. In PEC's most recent rate cases in 1988, the NCUC and the SCPSC each authorized a ROE of 12.75 percent.

COST RECOVERY FILINGS

On November 17, 2010, the NCUC approved three separate PEC cost-recovery filings, all of which were effective December 1, 2010. The NCUC approved PEC's request for a $170 million decrease in the fuel rate charged to its North Carolina ratepayers, driven by declining fuel prices, which reduced residential electric bills by $5.60 per 1,000 kilowatt-hours (kWh) for fuel cost recovery. The NCUC approved PEC's request for a $31 million increase in the demand-side management (DSM) and EE rate charged to its North Carolina ratepayers, which increased the residential electric bills by $1.56 per 1,000 kWh for DSM and EE cost recovery. The NCUC approved PEC's request for a $2 million decrease for North Carolina Renewable Energy and Energy Efficiency Portfolio Standard (NC REPS), which decreased the residential electric bills by $0.07 per 1,000 kWh. The net impact of the three filings results in an average reduction in residential electric bills of 3.9 percent. At December 31, 2010, PEC's North Carolina deferred fuel and DSM / EE balances were $56 million and $49 million, respectively.

On June 23, 2010, the SCPSC approved PEC's request for a $17 million decrease in the fuel rate charged to its South Carolina ratepayers, driven by declining fuel prices. The decrease was effective July 1, 2010, and decreased residential electric bills by $2.73 per 1,000 kWh for fuel cost recovery. PEC also filed with the SCPSC for an increase in the DSM and EE rate effective July 1, 2010, which was approved on a provisional basis on June 30, 2010, pending review by the South Carolina Office of Regulatory Staff. The net impact of the two filings resulted in an average reduction in residential electric bills of 1.7 percent. We cannot predict the outcome of this matter. At December 31, 2010, PEC's South Carolina deferred fuel and DSM / EE balances were $15 million and $8 million, respectively.

OTHER MATTERS

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

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

On December 1, 2009, PEC filed with the NCUC a plan to retire no later than December 31, 2017, all of its coal-fired generating facilities in North Carolina that do not have scrubbers. These facilities total approximately 1,500 MW at four sites. On September 13, 2010, PEC filed its 15-year Integrated Resource Plan with the NCUC and SCPSC, which further accelerated the expected retirement schedule of the four coal-fired generating facilities to no later than December 31, 2014. The net carrying value of the four facilities at December 31, 2010, of $172 million is included in other utility plant, net on the Consolidated Balance Sheets. Consistent with ratemaking treatment, PEC will continue to depreciate these plants using the current depreciation lives and rates on file with the NCUC and the SCPSC until PEC completes and files a new depreciation study. The final recovery periods may change in connection with the regulators' determination of the rate recovery of the remaining net carrying value.

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

The NCUC and the SCPSC approved proposals to accelerate cost recovery of PEC's nuclear generating assets beginning January 1, 2000, through 2009. The North Carolina aggregate minimum and maximum amounts of cost recovery were $415 million and $585 million, respectively, with flexibility in the amount of annual depreciation recorded, from none to $150 million per year. Accelerated cost recovery of these assets resulted in additional depreciation expense of $52 million for the year ended December 31, 2008. PEC reached the minimum amount of $415 million of cost recovery by December 31, 2008, and no additional depreciation expense from accelerated cost recovery was subsequently recorded. As a result of the SCPSC's approval of a 2008 PEC petition, PEC will not be required to recognize the remaining $38 million of accelerated depreciation required to reach the minimum $115 million of cost recovery for the South Carolina jurisdiction, but will record depreciation over the useful lives of the assets. No additional depreciation expense from accelerated cost recovery for the South Carolina jurisdiction was recorded in 2008 or subsequent to the approval.

C. PEF Retail Rate Matters

BASE RATES

On June 1, 2010, the FPSC approved a settlement agreement between PEF and the interveners, with the exception of the Florida Association for Fairness in Ratemaking, to the 2009 rate case. As part of the settlement, PEF withdrew its motion for reconsideration of the rate case order. Among other provisions, under the terms of the settlement agreement, PEF will maintain base rates at current levels through the last billing cycle of 2012. The settlement agreement also provides that PEF will have the discretion to reduce amortization expense (cost of removal component) by up to $150 million in 2010, up to $250 million in 2011, and up to any remaining balance in the cost of removal reserve in 2012 until the earlier of (a) PEF's applicable cost of removal reserve reaches zero, or (b) the expiration of the settlement agreement at the end of 2012. In the event PEF reduces amortization expense by less than the annual amounts for 2010 or 2011, PEF may carry forward (i.e., increase the annual cap by) any unused cost of removal reserve amounts in subsequent years during the term of the agreement. The balance of the cost of removal reserve is impacted by accruals in accordance with PEF's latest depreciation study, removal costs expended and reductions in amortization expense as permitted by the settlement agreement. For the year ended December 31, 2010, PEF recognized a $60 million reduction in amortization expense pursuant to the settlement agreement. PEF's applicable cost of removal reserve of $461 million is recorded as a regulatory liability on its December 31, 2010 Balance Sheet. The settlement agreement also provides PEF with the opportunity to earn a ROE of up to 11.5 percent and provides that if PEF's actual retail base rate earnings fall below a 9.5 percent ROE on an adjusted or pro forma basis, as reported on a historical 12-month basis during the term of the agreement, PEF may seek general, limited or interim base rate relief, or any combination thereof. Prior to requesting any such relief, PEF must have reflected on its referenced surveillance report associated amortization expense reductions of at least $150 million. The settlement agreement does not preclude PEF from requesting the FPSC to approve the recovery of costs (a) that are of a type which traditionally and historically would be, have been or are presently recovered through cost-recovery clauses or surcharges; or (b) that are incremental costs not currently recovered in base rates, which the legislature or FPSC determines are clause recoverable; or (c) which are recoverable through base rates under the nuclear cost-recovery legislation or the FPSC's nuclear cost-recovery rule. PEF also may, at its discretion, accelerate in whole or in part the amortization of certain regulatory assets over the term of the settlement agreement. Finally, PEF will be allowed to recover the costs of named storms on an expedited basis after depletion of the storm damage reserve. Specifically, 60 days following the filing of a cost-recovery petition with the FPSC and based on a 12-month recovery period, PEF can begin recovery, subject to refund, through a surcharge of up to $4.00 per 1,000 kWh on monthly residential customer bills for storm costs. In the event the storm costs exceed that level, any excess additional costs will be deferred and recovered in a subsequent year or years as determined by the FPSC. Additionally, the order approving the settlement agreement allows PEF to use the surcharge to replenish the storm damage reserve to $136 million, the level as of June 1, 2010, after storm costs are fully recovered. At December 31, 2010, PEF's storm damage reserve was $136 million, the amount permitted by the settlement agreement.

On September 14, 2010, the FPSC approved a reduction to PEF's AFUDC rate, from 8.848 percent to 7.44 percent. This new rate is based on PEF's updated authorized ROE and all adjustments approved on January 11, 2010, in PEF's base rate case and will be used for all purposes except for nuclear recoveries with original need petitions submitted on or before December 31, 2010, as permitted by FPSC regulations.

FUEL COST RECOVERY

On November 1, 2010, PEF filed a request with the FPSC to seek approval to decrease the total fuel-cost recovery by $205 million, reducing the residential rate by $6.64 per 1,000 kWh, or 5.2 percent effective January 1, 2011. This decrease is due to decreases of $5.14 per 1,000 kWh for the projected recovery through the Capacity Cost-Recovery Clause (CCRC) and of $1.50 per 1,000 kWh for the projected recovery of fuel costs. The decrease in the CCRC is primarily due to the refund of a prior period over-recovery as a result of higher than expected sales in 2010 and lower anticipated costs associated with PEF's proposed Levy Units No 1 and No 2 Nuclear Power Plants (Levy) in 2011 (See "Levy Nuclear") The decrease in the projected recovery of fuel costs is due to an expectation of lower 2011 fuel costs and the continued recovery of incremental CR3 replacement power costs through insurance, partially offset by an under-recovery of 2010 fuel costs On November 2, 2010 and November 30, 2010, the FPSC approved PEF's CCRC residential rate and fuel rate, respectively. Within the fuel clause, PEF received approval to collect, subject to refund, replacement power costs related to the CR3 nuclear plant outage (See "CR3 Outage"). At December 31, 2010, PEF's under-recovered deferred fuel balance was $98 million.

On October 25, 2010, the FPSC approved PEF's motion to establish a separate spin-off docket related to the outage and replacement fuel and power costs associated with the CR3 extended outage (See "CR3 Outage"). This docket will allow the FPSC to evaluate PEF's actions concerning the concrete delamination and review PEF's resulting costs associated with the CR3 extended outage. PEF intends to file a petition within 60 days following CR3's return to service; however, the FPSC has not yet established a case schedule. A hearing is expected later in 2011. We cannot predict the outcome of this matter.

NUCLEAR COST RECOVERY

Levy Nuclear

In 2008, the FPSC granted PEF's petition for an affirmative Determination of Need and related orders requesting cost recovery under Florida's nuclear cost-recovery rule for Levy, together with the associated facilities, including transmission lines and substation facilities. Levy is needed to maintain electric system reliability and integrity, provide fuel and generating diversity, and allow PEF to continue to provide adequate electricity to its customers at a reasonable cost The proposed Levy units will be advanced passive light water nuclear reactors, each with a generating capacity of approximately 1,100 MW. The petition included projections that Levy Unit No 1 would be placed in service by June 2016 and Levy Unit No 2 by June 2017. The filed, nonbinding project cost estimate for Levy Units No 1 and No 2 was approximately $14 billion for generating facilities and approximately $3 billion for associated transmission facilities.

In PEF's 2010 nuclear cost-recovery filing (See "Cost Recovery"), PEF identified a schedule shift in the Levy project that resulted from the NRC's 2009 determination that certain schedule-critical work that PEF had proposed to perform within the scope of its Limited Work Authorization request submitted with the combined license (COL) application will not be authorized until the NRC issues the COL Consequently, excavation and foundation preparation work anticipated in the initial schedule cannot begin until the COL is issued, resulting in a project shift of at least 20 months. Since then, regulatory and economic conditions identified in the 2010 nuclear cost-recovery filing have changed such that major construction activities on the Levy project are being postponed until after the NRC issues the COL, expected in 2013 if the current licensing schedule remains on track. Taking into account cost, potential carbon regulation, fossil fuel price volatility and the benefits of fuel diversification, we consider Levy to be PEF's preferred baseload generation option. Along with the FPSC's annual prudence reviews, we will continue to evaluate the project on an ongoing basis based on certain criteria, including, but not limited to, public, regulatory and political support; adequate financial cost-recovery mechanisms; appropriate levels of joint owner participation; customer rate impacts; project feasibility, including comparison to other generation options; DSM and EE programs; and availability and terms of capital financing.

Crystal River Unit No. 3 Nuclear Plant Uprate

In 2007, the FPSC issued an order approving PEF's Determination of Need petition related to a multi-stage uprate of CR3 that will increase CR3's gross output by approximately 180 MW during its next refueling outage. PEF implemented the first-stage design modifications in 2008. PEF will apply for the required license amendment for the third-stage design modification.

Cost Recovery

In 2009, pursuant to the FPSC nuclear cost-recovery rule, PEF filed a petition to recover $446 million through the CCRC, which primarily consisted of preconstruction and carrying costs incurred or anticipated to be incurred during 2009 and the projected 2010 costs associated with the Levy and CR3 uprate projects. In an effort to help mitigate the initial price impact on its customers, as part of its filing, PEF proposed collecting certain costs over a five-year period, with associated carrying costs on the unrecovered balance. The FPSC approved the alternate proposal allowing PEF to recover revenue requirements associated with the nuclear cost-recovery clause through the CCRC beginning with the first billing cycle of January 2010. The remainder, with minor adjustments, will also be recovered through the CCRC. In adopting PEF's proposed rate management plan for 2010, the FPSC permitted PEF to annually reconsider changes to the recovery of deferred amounts to afford greater flexibility to manage future rate impacts. The rate management plan included the 2009 reclassification to the nuclear cost-recovery clause regulatory asset of $198 million of capacity revenues and the accelerated amortization of $76 million of preconstruction costs. The cumulative amount of $274 million was recorded as a nuclear cost-recovery regulatory asset at December 31, 2009, and is projected to be recovered by 2014. At December 31, 2010, PEF's nuclear cost-recovery regulatory asset was $7 million and $178 million, classified as current and noncurrent, respectively.

On October 26, 2010, the FPSC approved PEF's annual nuclear cost-recovery filing to recover $164 million, which includes recovery of preconstruction, carrying and CCRC-recoverable operations and maintenance (O&M) costs incurred or anticipated to be incurred during 2011, recovery of $60 million of the 2009 deferral in 2011, as well as the estimated true-up of 2010 costs associated with the Levy and CR3 uprate projects. This resulted in a decrease in the nuclear cost-recovery charge of $1.46 per 1,000 kWh for residential customers, beginning with the first January 2011 billing cycle. The FPSC determined the costs associated with Levy were prudent and deferred a determination concerning the prudence of the 2009 CR3 uprate costs until the 2011 nuclear cost-recovery proceeding. The final order was issued on February 2, 2011.

CR3 OUTAGE

In September 2009, CR3 began an outage for normal refueling and maintenance as well as its uprate project to increase its generating capability and to replace two steam generators. During preparations to replace the steam generators, workers discovered a delamination within the concrete of the outer wall of the containment structure, which has resulted in an extension of the outage. After a comprehensive analysis, we have determined that the concrete delamination at CR3 was caused by redistribution of stresses on the containment wall that occurred when we created an opening to accommodate the replacement of the unit's steam generators. We expect to complete repairs in March, and return the unit to service following successful completion of post-repair testing and start-up activities in April 2011. A number of factors affect the return to service date, including regulatory reviews by the NRC and other agencies, emergent work, final engineering designs, testing, weather and other developments.

PEF maintains insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at CR3 through NEIL as discussed in Note 4D. PEF also maintains insurance coverage through an accidental property damage program, which provides insurance coverage with a $10 million deductible per claim. PEF notified NEIL of the claim related to the CR3 delamination event on October 15, 2009. NEIL has confirmed that the CR3 delamination event is a covered accident. PEF is continuing to work with NEIL for recovery of applicable repair costs and associated replacement power costs.

The following table summarizes the CR3 replacement power and repair costs and recovery through December 31, 2010:

(in millions)	Replacement Power Costs	Repair Costs
Spent to date	$288	$150
NEIL proceeds received	(117)	(64)
Insurance receivable at December 31, 2010	(54)	(47)
Balance for recovery	$117	$39

PEF considers replacement power and capital costs not recoverable through insurance to be recoverable through its fuel cost-recovery clause or base rates. PEF accrued $171 million of replacement power cost reimbursements after the deductible period, which reduced the portion of the deferred fuel regulatory asset related to the extended CR3 outage to $117 million at December 31, 2010. Additional replacement power costs and repair and maintenance costs incurred until CR3 is returned to service could be material. PEF requested, and the FPSC approved, the creation of a separate spin-off docket to review the prudence and costs related to the CR3 outage (See "Fuel Cost Recovery").

We cannot predict the outcome of this matter.

DEMAND-SIDE MANAGEMENT COST RECOVERY

On December 30, 2009, the FPSC ordered PEF and other Florida utilities to adopt DSM goals based on enhanced measures, which will result in significantly higher conservation goals. As subsequently revised by the FPSC, PEF's aggregate conservation goals over the next 10 years were: 1,134 Summer MW, 1,058 Winter MW, and 3,205 gigawatt-hours (GWh). On March 30, 2010, PEF filed a petition for approval of its proposed DSM plan and to authorize cost recovery through the Energy Conservation Cost Recovery Clause (ECCR). On September 14, 2010, the FPSC held an agenda conference to approve PEF's petition for the DSM plan The FPSC ruled that while PEF's proposed DSM plan met the cumulative, 10-year DSM goals set by the FPSC, the plan did not meet the annual DSM goals On October 4, 2010, the FPSC denied PEF's petition for the DSM plan, approved PEF's solar pilot programs, and required PEF to file a revised proposed DSM plan that meets the annual goals set by the FPSC. PEF filed a revised proposed DSM plan on November 29, 2010 An agenda conference has been scheduled by the FPSC for April 5, 2011 We cannot predict the outcome of this matter.

On November 1, 2010, the FPSC approved PEF's request to increase the ECCR residential rate by $0.29 per 1,000 kWh, or 0.2 percent of the total residential rate, effective January 1, 2011. The increase in the ECCR is primarily due to an increase in conservation program costs, including the costs associated with PEF's solar pilot, partially offset by a refund of a prior period over-recovery as a result of higher than expected sales in 2010.

OTHER MATTERS

On November 1, 2010, the FPSC approved PEF's request to decrease the Environmental Cost Recovery Clause (ECRC) by $37 million, reducing the residential rate by $1.02 per 1,000 kWh, or 0.8 percent, effective January 1, 2011. The decrease in the ECRC is primarily due to the 2010 base rate decision, which reduced the clean air project depreciation and return rates, and the refund of a prior period over-recovery as a result of higher than expected sales in 2010. At December 31, 2010, PEF's over-recovered deferred ECRC was $45 million.

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

D. Nuclear License Renewals

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

8. GOODWILL

Goodwill is required to be tested for impairment at least annually and more frequently when indicators of impairment exist. All of our goodwill is allocated to our utility reporting units and our goodwill impairment tests are performed at the utility reporting unit level. At December 31, 2010 and 2009, 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. As discussed in Note 1D, during 2010 we changed the annual testing date for our annual goodwill impairment tests from April 1 to October31 of each year. As a result, we performed goodwill impairment tests as of April 1, 2010 and October 31, 2010, and concluded there was no impairment of the carrying value of the goodwill.

9. EQUITY

A. Common Stock

At December 31, 2010 and 2009, we had 500 million shares of common stock authorized under our charter, of which 293 million and 281 million shares were outstanding, respectively We periodically issue shares of common stock through the Progress Energy 401(k) Savings & Stock Ownership Plan (401(k)), the Progress Energy Investor Plus Plan (IPP) and other benefit plans.

There are various provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. At December 31, 2010, there were no significant restrictions on the use of retained earnings (See Note 11B and Note 25)

The following table presents information for our common stock issuances for the years ended December 31:

	2010		2009		2008	
(in millions)	**Shares**	**Net Proceeds**	Shares	Net Proceeds	Shares	Net Proceeds
Total issuances	**12.2**	**$434**	17.5	$623	3.7	$132
Issuances under an underwritten public offering[a]	–	–	14.4	523	–	–
Issuances through 401(k) and/or IPP	**11.2**	**431**	2.5	100	3.1	131

[a] The shares issued under an underwritten public offering were issued on January 12, 2009, at a public offering price of $37.50.

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. The 401(k), which has a matching feature, encourages systematic savings by employees and provides a method of acquiring Progress Energy common stock and other diverse investments. The 401(k), as amended in 1989, is an Employee Stock Ownership Plan (ESOP) that can enter into acquisition loans to acquire Progress Energy common stock to satisfy 401(k) common share needs. Qualification as an ESOP did not change the level of benefits received by employees under the 401(k). Common stock acquired with the proceeds of an ESOP loan was held by the 401(k) Trustee in a suspense account. The common stock was released from the suspense account and made available for allocation to participants as the ESOP loan was 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. At December 31, 2010, no ESOP suspense shares were outstanding and the ESOP acquisition loan was repaid.

There were 0.5 million ESOP suspense shares at December 31, 2009 with a fair value of $22 million. ESOP shares allocated to plan participants totaled 13.4 million and 13.0 million at December 31, 2010 and 2009, respectively. Our matching compensation cost under the 401(k) is determined based on matching percentages as defined in the plan. Through December 31, 2010, such compensation cost was 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. In 2010, we met common stock share needs with open market purchases and with shares released from the ESOP suspense account. Matching costs met with shares released from the suspense account totaled approximately $12 million, $12 million and $8 million for the years ended December 31, 2010, 2009 and 2008, respectively. At December 31, 2009, we had 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 was included in the determination of unearned ESOP common stock, which reduces common stock equity.

We also sponsor the Savings Plan for Employees of Florida Progress Corporation, which is an ESOP plan that covers bargaining unit employees of PEF.

Total matching cost for both plans was approximately $43 million, $41 million and $38 million for the years ended December 31, 2010, 2009 and 2008, respectively.

OTHER STOCK-BASED COMPENSATION PLANS

We have additional compensation plans for our officers and key employees that are stock-based in whole or in part. Our long-term compensation program currently includes two types of equity-based incentives: performance shares under the Performance Share Sub-Plan (PSSP) and restricted stock programs. The compensation program was established pursuant to our 1997 Equity Incentive Plan (EIP) and was continued under our 2002 and 2007 EIPs, as amended and restated from time to time. As authorized by the EIPs, we may grant up to 20 million shares of Progress Energy common stock through our long-term compensation program.

In 2008, shares issued under the PSSP used only one performance measure. In 2009, the PSSP was redesigned. For 2009 and 2010, shares issued under the revised plan use total shareholder return and earnings growth as two equally weighted performance measures. The outcome of the performance measures can result in an increase or decrease from the target number of performance shares granted. We distribute common stock shares to participants equivalent to the number of performance shares that ultimately vest. Through December 31, 2010, we issued new shares of common stock to satisfy the requirements of the PSSP program. Also, the fair value of the stock-settled award is generally established at the grant date based on the fair value of common stock on that date, with subsequent adjustments made to reflect the status of the performance measure. Compensation expense for all awards is reduced by estimated forfeitures. At December 31, 2010, there were an immaterial number of stock-settled performance target shares outstanding. The final number of shares issued will be dependent upon the outcome of the performance measures discussed above.

Beginning in 2007, we began issuing restricted stock units (RSUs) rather than the previously issued restricted stock awards for our officers, vice presidents, managers and key employees. RSUs awarded to eligible employees are generally subject to either three- or five-year cliff vesting or three- or five-year graded vesting. Through December 31, 2010, we issued new shares of common stock to satisfy the requirements of the RSU program. Compensation expense, based on the fair value of common stock at the grant date, is recognized over the applicable vesting period, with corresponding increases in common stock equity. RSUs are included as shares outstanding in the basic earnings per share calculation and are converted to shares upon vesting. At December 31, 2010, there were an immaterial number of RSUs outstanding.

The total fair value of RSUs vested during the years ended December 31, 2010, 2009 and 2008, was $24 million, $16 million and $9 million, respectively. No cash was expended to purchase stock to satisfy RSU plan obligations in 2010, 2009 and 2008. The RSUs vested during 2010 had a weighted-average grant date fair value of $43.58.

Our Consolidated Statements of Income included total recognized expense for other stock-based compensation plans of $27 million for the year ended December 31, 2010, with a recognized tax benefit of $11 million. The total expense recognized on our Consolidated Statements of Income for other stock-based compensation plans was $37 million, with a recognized tax benefit of $14 million, and $34 million, with a recognized tax benefit of $13 million, for the years ended December 31, 2009 and 2008, respectively. No compensation cost related to other stock-based compensation plans was capitalized.

At December 31, 2010, unrecognized compensation cost related to nonvested other stock-based compensation plan awards totaled $25 million, which is expected to be recognized over a weighted-average period of 1.6 years.

C. Earnings Per Common Share

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

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

(in millions)	**2010**	2009	2008
Weighted-average common shares – basic	**290.7**	279.4	261.6
Net effect of dilutive stock-based compensation plans	**0.1**	0.1	0.1
Weighted-average shares – fully diluted	**290.8**	279.5	261.7

There were no adjustments to net income or to income from continuing operations attributable to controlling interests between the calculations of basic and fully diluted earnings per common share. There were 0.8 million, 1.5 million and 1.6 million stock options outstanding at December 31, 2010, 2009 and 2008, 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:

(in millions)	**2010**	2009
Cash flow hedges	**$(63)**	$(35)
Pension and other postretirement benefits	**(62)**	(52)
Total accumulated other comprehensive loss	**$(125)**	$(87)

10. PREFERRED STOCK OF SUBSIDIARIES

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

At December 31, 2010 and 2009, preferred stock outstanding consisted of the following:

	Shares			
(dollars in millions, except share and per share data)	Authorized	Outstanding	Redemption Price	Total
PEC				
Cumulative, no par value $5 Preferred Stock	300,000	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

11. DEBT AND CREDIT FACILITIES

A. Debt and Credit Facilities

At December 31 our long-term debt consisted of the following (maturities and weighted-average interest rates at December 31, 2010):

(in millions)		**2010**	2009
Parent			
Senior unsecured notes, maturing 2011-2039	6.64%	**$4,200**	$ 4,300
Unamortized premium and discount, net		**(6)**	(7)
Current portion of long-term debt		**(205)**	(100)
Long-term debt, net		**3,989**	4,193
PEC			
First mortgage bonds, maturing 2011-2038	5.60%	**2,525**	2,525
Pollution control obligations, maturing 2017-2024	0.89%	**669**	669
Senior unsecured notes, maturing 2012	6.50%	**500**	500
Miscellaneous notes	6.00%	**5**	21
Unamortized premium and discount, net		**(6)**	(6)
Current portion of long-term debt		**–**	(6)
Long-term debt, net		**3,693**	3,703
PEF			
First mortgage bonds, maturing 2011-2040	5.82%	**4,100**	3,800
Pollution control obligations, maturing 2018-2027	0.52%	**241**	241
Medium-term notes, maturing 2028	6.75%	**150**	150
Unamortized premium and discount, net		**(9)**	(8)
Current portion of long-term debt		**(300)**	(300)
Long-term debt, net		**4,182**	3,883
Progress Energy consolidated long-term debt, net		**$11,864**	$11,779
Florida Progress Funding Corporation (See Note 23)			
Debt to affiliated trust, maturing 2039	7.10%	**$309**	$ 309
Unamortized premium and discount, net		**(36)**	(37)
Long-term debt, affiliate		**$273**	$ 272

On January 21, 2011, the Parent issued $500 million of 4.40% Senior Notes due 2021. We expect to use net proceeds of $495 million, along with available cash on hand, to retire at maturity the $700 million outstanding aggregate principal balance of our 7.10% Senior Notes due March 1, 2011. Accordingly, we classified $495 million of the Parent's $700 million 7.10% Senior Notes due March 1, 2011 as long-term debt at December 31, 2010.

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

On March 25, 2010, PEF issued $250 million of 4.55% First Mortgage Bonds due 2020 and $350 million of 5.65% First Mortgage Bonds due 2040. Proceeds were used to repay the outstanding balance of PEF's notes payable to affiliated companies, to repay the maturity of PEF's $300 million 4.50% First Mortgage Bonds due June 1, 2010, and for general corporate purposes.

At December 31, 2010 and 2009, we had committed lines of credit used to support our commercial paper and other short-term borrowings. At December 31, 2010 and December 31, 2009, we had no outstanding borrowings under our revolving credit agreements (RCAs). We are required to pay fees to maintain our credit facilities.

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

(in millions)		Total	Outstanding	Reserved[a]	Available
2010					
Parent	**Five-year (expiring 5/3/12)[b]**	**$500**	**$–**	**$31**	**$469**
PEC	**Three-year (expiring 10/15/13)**	**750**	**–**	**–**	**750**
PEF	**Three-year (expiring 10/15/13)**	**750**	**–**	**–**	**750**
Total credit facilities		**$2,000**	**$–**	**$31**	**$1,969**
2009					
~~Parent~~	~~Five-year (expiring 5/3/12)~~	~~$1,130~~	~~$–~~	~~$177~~	~~$953~~
PEC	Five-year (expiring 6/28/11)	450	–	–	450
PEF	Five-year (expiring 3/28/11)	450	–	–	450
Total credit facilities		$2,030	$–	$177	$1,853

[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, 2010 and 2009, the Parent had $31 million and $37 million, respectively, of letters of credit issued, which were supported by the RCA. Additionally, on December 31, 2009, the Parent had $140 million of outstanding commercial paper supported by the RCA.

[b] Approximately $22 million of the $500 million will expire May 3, 2011.

On October 15, 2010, PEC and PEF each entered into new $750 million, three-year RCAs with a syndication of 22 financial institutions. The RCAs are used to provide liquidity support for PEC's and PEF's issuances of commercial paper and other short-term obligations, and for general corporate purposes. The RCAs will expire on October 15, 2013. The new $750 million RCAs replaced PEC's and PEF's $450 million RCAs, which were set to expire on June 28, 2011 and March 28, 2011, respectively. Both $450 million RCAs were terminated effective October 15, 2010. Fees and interest rates under the new RCAs are to be determined based upon the respective credit ratings of PEC's and PEF's long-term unsecured senior noncredit-enhanced debt, as rated by Moody's Investor Services, Inc. (Moody's) and Standard and Poor's Rating Services (S&P). The RCAs do not include material adverse change representations for borrowings or financial covenants for interest coverage. See "Covenants and Default Provisions" for additional provisions related to the RCAs.

Also on October 15, 2010, the Parent ratably reduced the size of its $1.130 billion credit facility to $500 million with the existing group of 15 financial institutions. As a result of the changes made on October 15, 2010, our combined credit commitments total $2.000 billion, supported by 24 financial institutions

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

(in millions)	**2010**		2009	
Parent	–%	$–	0.49%	$140
PEC	–	–	–	–
PEF	–	–	–	–
Total	–%	$–	0.49 %	$140

Long-term debt maturities during the next five years are as follows:

(in millions)	
2011	$1,000
2012	950
2013	830
2014	300
2015	1,000

B. Covenants and Default Provisions

FINANCIAL COVENANTS

The Parent's, PEC's and PEF's credit lines contain various terms and conditions that could affect the ability to borrow under these facilities. All of the credit facilities include a defined maximum total debt to total capital ratio (leverage). At December 31, 2010, the maximum and calculated ratios, pursuant to the terms of the agreements, were as follows:

Company	Maximum Ratio	Actual Ratio[a]
Parent	68%	56%
PEC	65%	42%
PEF	65%	49%

[a] Indebtedness as defined by the credit agreement includes certain letters of credit and guarantees not recorded on the Consolidated Balance Sheets.

CROSS-DEFAULT PROVISIONS

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

Additionally, certain of the Parent's long-term debt indentures contain cross-default provisions for defaults of indebtedness in excess of amounts ranging from $25 million to $50 million; these provisions apply only to other obligations of the Parent, primarily commercial paper issued by the Parent, not its subsidiaries. In the event that these indenture cross-default provisions are triggered, the debt holders could accelerate payment of long-term debt. Following payment of the Parent's $700 million March 1, 2011 maturity, $4 000 billion in long-term debt could be subject to acceleration provisions. Certain agreements underlying our indebtedness also limit our ability to incur additional liens or engage in certain types of sale and leaseback transactions.

OTHER RESTRICTIONS

Neither the Parent's Articles of Incorporation nor any of its debt obligations contain any restrictions on the payment of dividends, so long as no shares of preferred stock are outstanding. At December 31, 2010, the Parent had no shares of preferred stock outstanding. See Note 25 for information regarding restrictions on dividends relative to the Progress Energy and Duke Energy Agreement and Plan of Merger.

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

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, 2010, none of PEC's cash dividends or distributions on common stock was restricted.

In addition, PEC's Articles of Incorporation provide that so long as any shares of preferred stock are outstanding, the aggregate amount of cash dividends or distributions on common stock since December 31, 1945, including the amount then proposed to be expended, shall be limited to 75 percent of the aggregate net income available for common stock if common stock equity falls below 25 percent of total capitalization, and to 50 percent if common stock equity falls below 20 percent. PEC's Articles of Incorporation also provide that cash dividends on common stock shall be limited to 75 percent of the current year's net income available for dividends if common stock equity falls below 25 percent of total capitalization, and to 50 percent if common stock equity falls below 20 percent. At December 31, 2010, PEC's common stock equity was approximately 58.0 percent of total capitalization. At December 31, 2010, none of PEC's cash dividends or distributions on common stock was restricted.

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, 2010, none of PEF's cash dividends or distributions on common stock was restricted.

In addition, PEF's Articles of Incorporation provide that so long as any shares of preferred stock are outstanding, no cash dividends or distributions on common stock shall be paid, if the aggregate amount thereof since April 30, 1944, including the amount then proposed to be expended, plus all other charges to retained earnings since April 30, 1944, exceeds all credits to retained earnings since April 30, 1944, plus all amounts credited to capital surplus after April 30, 1944, arising from the donation to PEF of cash or securities or transfers of amounts from retained earnings to capital surplus. PEF's Articles of Incorporation also provide that cash dividends on common stock shall be limited to 75 percent of the current year's net income available for dividends if common stock equity falls below 25 percent of total capitalization, and to 50 percent if common stock equity falls below 20 percent. On December 31, 2010, PEF's common stock equity was approximately 53.7 percent of total capitalization. At December 31, 2010, 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, 2010, PEC and PEF had a total of $3.194 billion and $4.341 billion, respectively, of first mortgage bonds outstanding, including those related to pollution control obligations. Each mortgage allows the issuance of additional mortgage bonds upon the satisfaction of certain conditions.

D. Guarantees of Subsidiary Debt

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

E. Hedging Activities

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

12. INVESTMENTS

A. Investments

At December 31, 2010 and 2009, we had investments in various debt and equity securities, cost investments, company-owned life insurance and investments held in trust funds as follows:

(in millions)	**2010**	2009
Nuclear decommissioning trust (See Notes 4C and 13)	**$1,571**	$1,367
Equity method investments[a]	**16**	18
Cost investments[b]	**5**	5
Company-owned life insurance[c]	**46**	45
Benefit investment trusts[d]	**175**	191
Total	**$1,813**	$1,626

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

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

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

[d] Benefit investment trusts are included in miscellaneous other property and investments in the Consolidated Balance Sheets. At December 31, 2010 and 2009, $166 million and $152 million, respectively, of investments in company-owned life insurance were held in Progress Energy's trusts.

B. Impairment of Investments

We evaluate declines in value of investments under the criteria of GAAP. Declines in fair value to below the cost basis judged to be other than temporary on available-for-sale securities are included in long-term regulatory assets or liabilities on the Consolidated Balance Sheets for securities held in our nuclear decommissioning trust funds and in operation and maintenance expense and other, net on the Consolidated Statements of Income for securities in our benefit investment trusts, other available-for-sale securities and equity and cost method investments. See Note 13 for additional information. There were no material other-than-temporary impairments in 2010, 2009 or 2008.

13. FAIR VALUE DISCLOSURES

A. Debt and Investments

DEBT

The carrying amount of our long-term debt, including current maturities, was $12.642 billion and $12.457 billion at December 31, 2010 and 2009, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was $14.0 billion and $13.4 billion at December 31, 2010 and 2009, respectively.

INVESTMENTS

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

The following table summarizes our available-for-sale securities at December 31:

(in millions)	Fair Value	Unrealized Losses	Unrealized Gains
2010			
Common stock equity	**$1,021**	**$13**	**$408**
Preferred stock and other equity	**28**	**–**	**11**
Corporate debt	**90**	**–**	**6**
U.S. state and municipal debt	**132**	**4**	**3**
U.S. and foreign government debt	**264**	**2**	**10**
Money market funds and other	**52**	**–**	**1**
Total	**$1,587**	**$19**	**$439**
2009			
Common stock equity	$839	$22	$301
Preferred stock and other equity	16	–	5
Corporate debt	71	1	5
U.S. state and municipal debt	118	2	3
U.S. and foreign government debt	197	1	8
Money market funds and other	161	–	–
Total	$1,402	$26	$322

The NDT funds and other available-for-sale debt investments held in certain benefit trusts are managed by third-party investment managers who have a right to sell securities without our authorization. Net unrealized gains and losses of the NDT funds that would be recorded in earnings or other comprehensive income by a nonregulated entity are recorded as regulatory assets and liabilities pursuant to ratemaking treatment. Therefore, the preceding tables include the unrealized gains and losses for the NDT funds based on the original cost of the trust investments. All of the unrealized losses and unrealized gains for 2010 and 2009 relate to the NDT funds. There were no material unrealized losses and unrealized gains for the other available-for-sale debt securities held in benefit trusts at December 31, 2010 and 2009.

The aggregate fair value of investments that related to the December 31, 2010 and 2009 unrealized losses was $195 million and $209 million, respectively.

At December 31, 2010, the fair value of our available-for-sale debt securities by contractual maturity was:

(in millions)	
Due in one year or less	$27
Due after one through five years	223
Due after five through 10 years	126
Due after 10 years	117
Total	$493

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

(in millions)	**2010**	2009	2008
Proceeds	**$6,747**	$2,207	$1,316
Realized gains	**21**	26	29
Realized losses	**27**	87	86

Proceeds were primarily related to NDT funds. Losses for investments in the benefit investment trusts were not material. Other securities are evaluated on an individual basis to determine if a decline in fair value below the carrying value is other-than-temporary. At December 31, 2010 and 2009, our other securities had no investments in a continuous loss position for greater than 12 months.

B. Fair Value Measurements

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

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

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

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

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

Certain assets and liabilities, including long-lived assets, were measured at fair value on a nonrecurring basis. There were no significant fair value measurement losses recognized for such assets and liabilities in the periods reported. These fair value measurements fall within Level 3 of the hierarchy discussed above.

The following tables set forth, by level within the fair value hierarchy, our financial assets and liabilities accounted for at fair value on a recurring basis as of December 31, 2010 and 2009. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

(in millions)	Level 1	Level 2	Level 3	Total
2010				
Assets				
Nuclear decommissioning trust funds				
Common stock equity	$1,021	$–	$–	$1,021
Preferred stock and other equity	22	6	–	28
Corporate debt	–	86	–	86
U.S. state and municipal debt	–	132	–	132
U.S. and foreign government debt	79	182	–	261
Money market funds and other	1	42	–	43
Total nuclear decommissioning trust funds	1,123	448	–	1,571
Derivatives				
Commodity forward contracts	–	15	–	15
Interest rate contracts	–	4	–	4
Other marketable securities				
Corporate debt	–	4	–	4
U.S. and foreign government debt	–	3	–	3
Money market funds and other	18	–	–	18
Total assets	$1,141	$474	$–	$1,615
Liabilities				
Derivatives				
Commodity forward contracts	$–	$458	$36	$494
Interest rate contracts	–	39	–	39
Contingent value obligations derivatives	–	15	–	15
Total liabilities	$–	$512	$36	$548

(in millions)	Level 1	Level 2	Level 3	Total
2009				
Assets				
Nuclear decommissioning trust funds				
Common stock equity	$839	$–	$–	$839
Preferred stock and other equity	16	–	–	16
Corporate debt	–	71	–	71
U.S. state and municipal debt	–	117	–	117
U.S. and foreign government debt	62	128	–	190
Money market funds and other	1	133	–	134
Total nuclear decommissioning trust funds	918	449	–	1,367
Derivatives				
Commodity forward contracts	–	20	–	20
Interest rate contracts	–	19	–	19
Other marketable securities				
U.S. state and municipal debt	–	1	–	1
U.S. and foreign government debt	–	7	–	7
Money market funds and other	16	27	–	43
Total assets	$934	$523	$–	$1,457
Liabilities				
Derivatives				
Commodity forward contracts	$–	$386	$39	$425
Contingent value obligations derivatives	–	15	–	15
Total liabilities	$–	$401	$39	$440

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

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

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

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

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

Transfers in (out) of Levels 1, 2 or 3 represent existing assets or liabilities previously categorized as a higher level for which the inputs to the estimate became less observable or assets and liabilities previously classified as Level 2 or 3 for which the lowest significant input became more observable during the period. There were no significant transfers in (out) of Levels 1 or 2 during the period other than those reflected in the Level 3 reconciliations. Transfers into and out of each level are measured at the end of the reporting period.

A reconciliation of changes in the fair value of our commodity derivatives, net classified as Level 3 in the fair value hierarchy for the years ended December 31 follows:

(in millions)	**2010**	2009	2008
Derivatives, net at beginning of period	**$39**	$41	$(26)
Total losses (gains), realized and unrealized deferred as regulatory assets and liabilities, net	**44**	13	102
Transfers (out) in of Level 3, net	**(47)**	(15)	(35)
Derivatives, net at end of period	**$36**	$39	$41

Substantially all unrealized gains and losses on derivatives are deferred as regulatory liabilities or assets consistent with ratemaking treatment. There were no Level 3 purchases, sales, issuances or settlements during the period.

14. INCOME TAXES

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

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

(in millions)	**2010**	2009
Deferred income tax assets		
ARO liability	**$107**	$127
Derivative instruments	**204**	159
Income taxes refundable through future rates	**271**	225
Pension and other postretirement benefits	**447**	508
Other	**394**	374
Tax credit carry forwards	**839**	712
Net operating loss carry forwards	**105**	66
Valuation allowance	**(60)**	(55)
Total deferred income tax assets	**2,307**	2,116
Deferred income tax liabilities		
Accumulated depreciation and property cost differences	**(2,439)**	(1,889)
Income taxes recoverable through future rates	**(875)**	(782)
Other	**(386)**	(338)
Total deferred income tax liabilities	**(3,700)**	(3,009)
Total net deferred income tax liabilities	**$(1,393)**	$(893)

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

(in millions)	**2010**	2009
Current deferred income tax assets, included in prepayments and other current assets	**$156**	$168
Noncurrent deferred income tax assets, included in other assets and deferred debits	**34**	37
Noncurrent deferred income tax liabilities, included in noncurrent income tax liabilities	**(1,583)**	(1,098)
Total net deferred income tax liabilities	**$(1,393)**	$(893)

At December 31, 2010, we had the following tax credit and net operating loss carry forwards:

- $836 million of federal alternative minimum tax credits that do not expire.
- $5 million of state income tax credits that will expire during 2013.
- $105 million of gross federal net operating loss carry forwards that will expire during 2030.
- $1.6 billion of gross state net operating loss carry forwards that will expire during the period 2011 through 2030.

Valuation allowances have been established due to the uncertainty of realizing certain future state tax benefits. We had a net increase of $5 million in our valuation allowances during 2010.

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.

Certain substantial changes in ownership of Progress Energy, including the proposed merger between Progress Energy and Duke Energy Corporation (Duke Energy) (See Note 25), can impact the timing of the utilization of tax credit carry forwards and net operating loss carry forwards.

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

	2010	2009	2008
Effective income tax rate	**38.3%**	32.1%	33.7%
State income taxes, net of federal benefit	**(4.3)**	(3.7)	(3.8)
Investment tax credit amortization	**0.5**	0.8	1.0
Employee stock ownership plan dividends	**0.9**	1.0	1.0
Domestic manufacturing deduction	**–**	0.8	0.3
AFUDC equity	**1.4**	2.2	2.5
Other differences, net	**(1.8)**	1.8	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)	**2010**	2009	2008
Current			
Federal	**$(46)**	$227	$38
State	**(13)**	41	12
Total current income tax expense (benefit)	**(59)**	268	50
Deferred			
Federal	**542**	114	305
State	**100**	25	49
Total deferred income tax expense	**642**	139	354
Investment tax credit	**(7)**	(10)	(12)
Net operating loss carry forward	**(37)**	–	(6)
Beginning-of-the-year valuation allowance change	**–**	–	9
Total income tax expense	**$539**	$397	$395

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

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

- Taxes related to discontinued operations recorded net of tax for 2010, 2009 and 2008, which are presented separately in Notes 3A through 3C.

- Taxes related to other comprehensive income recorded net of tax for 2010, 2009 and 2008, which are presented separately in the Consolidated Statements of Comprehensive Income.
- An immaterial amount of current tax benefit, which was recorded in common stock during 2010, related to excess tax deductions resulting from vesting of restricted stock awards, vesting of RSUs, vesting of stock-settled PSSP awards and exercises of nonqualified stock options pursuant to the terms of our EIP. No net current tax benefit was recorded in common stock during 2009 and 2008.

At December 31, 2010, 2009, and 2008, our liability for unrecognized tax benefits was $176 million, $160 million, and $104 million, respectively. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate for income from continuing operations was $8 million, $9 million, and $8 million, respectively, at December 31, 2010, 2009, and 2008. The following table presents the changes to unrecognized tax benefits during the years ended December 31:

(in millions)	**2010**	2009	2008
Unrecognized tax benefits at beginning of period	**$160**	$104	$93
Gross amounts of increases as a result of tax positions taken in a prior period	**10**	11	17
Gross amounts of decreases as a result of tax positions taken in a prior period	**(4)**	(3)	(11)
Gross amounts of increases as a result of tax positions taken in the current period	**14**	52	8
Gross amounts of decreases as a result of tax positions taken in the current period	**(4)**	(4)	(2)
Amounts of net increases relating to settlements with taxing authorities	**–**	–	1
Reduction as a result of a lapse of the applicable statute of limitations	**–**	–	(2)
Unrecognized tax benefits at end of period	**$176**	$160	$104

We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Generally our open federal tax years are from 2004 forward, and our open state tax years in our major jurisdictions are from 2003 or 2004 forward. The IRS is currently examining our federal tax returns for years 2004 through 2005. We cannot predict when the review will be completed. Although the timing for completion of the IRS review is uncertain, it is reasonably possible that unrecognized tax benefits will decrease by up to approximately $60 million during the 12-month period ending December 31, 2011, due to expected settlements. Any potential decrease will not have a material impact on our results of operations.

We include interest expense related to unrecognized tax benefits in net interest charges and we include penalties in other, net on the Consolidated Statements of Income. During 2010, 2009, and 2008, the net interest expense related to unrecognized tax benefits was $9 million, $9 million, and $4 million, respectively, of which a respective $5 million, $5 million, and $1 million expense component was deferred as a regulatory asset by PEF, which is amortized as a charge to interest expense over a three-year period or less. During 2008, PEF charged the unamortized balance of the regulatory asset to interest expense. During 2010 and 2009, there were no penalties related to unrecognized tax benefits. During 2008, less than $1 million was recorded for penalties related to unrecognized tax benefits. At December 31, 2010, 2009, and 2008, we had accrued $45 million, $36 million, and $27 million, respectively, for interest and penalties, which are included in interest accrued and other liabilities and deferred credits on the Consolidated Balance Sheets.

15. CONTINGENT VALUE OBLIGATIONS

In connection with the acquisition of Florida Progress during 2000, the Parent issued 98.6 million CVOs. Each CVO represents the right of the holder to receive contingent payments based on the performance of four coal-based solid synthetic fuels limited liability companies, three of which were wholly owned (Earthco), purchased by subsidiaries of Florida Progress in October 1999. All of our synthetic fuels businesses were abandoned and all operations ceased as of December 31, 2007 (See Note 3A). The payments are based on the net after-tax cash flows the facilities generated. We make deposits into a CVO trust for estimated contingent payments due to CVO holders based on the results of operations and the utilization of tax credits. The balance of the CVO trust at December 31, 2010 and 2009 was $11 million and is included in other assets and deferred debits on the Consolidated Balance Sheets. Future payments from the trust to CVO holders will not be made until certain conditions are satisfied and will include principal and interest earned during the investment period net of expenses deducted. Interest earned on the payments held in trust for 2010 and 2009 was insignificant.

The CVOs are derivatives and are recorded at fair value. The unrealized loss/gain recognized due to changes in fair value is recorded in other, net on the Consolidated Statements of Income (See Note 20). At December 31, 2010 and 2009, the CVO liability included in other liabilities and deferred credits on our Consolidated Balance Sheets was $15 million.

16. BENEFIT PLANS

A. Postretirement Benefits

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

COSTS OF BENEFIT PLANS

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

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

The table below provides the components of the net periodic benefit cost for the years ended December 31. A portion of net periodic benefit cost is capitalized as part of construction work in progress.

	Pension Benefits			OPEB		
(in millions)	**2010**	2009	2008	**2010**	2009	2008
Service cost	**S48**	S42	S46	**S16**	S7	S8
Interest cost	**140**	138	128	**45**	31	34
Expected return on plan assets	**(157)**	(133)	(170)	**(4)**	(4)	(6)
Amortization of actuarial loss[a]	**51**	54	8	**13**	1	1
Other amortization, net[a]	**6**	6	2	**5**	5	5
Net periodic cost before deferral[b]	**S88**	S107	S14	**S75**	S40	S42

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

[b] PEF received permission from the FPSC to defer the retail portion of certain 2009 pension expense. The FPSC order did not change the total net periodic pension cost, but deferred a portion of the costs to be recovered in future periods. During 2009, PEF deferred S34 million of net periodic pension costs as a regulatory asset. See Note 7C.

The following table provides a summary of amounts recognized in other comprehensive income and other comprehensive income reclassification adjustments for amounts included in net income for 2010, 2009 and 2008. The tables also include comparable items that affected regulatory assets of PEC and PEF. For PEC and PEF, amounts that would otherwise be recorded in other comprehensive income are recorded as adjustments to regulatory assets consistent with the recovery of the related costs through the ratemaking process

	Pension Benefits			OPEB		
(in millions)	**2010**	2009	2008	**2010**	2009	2008
Other comprehensive income (loss)						
Recognized for the year						
Net actuarial (loss) gain	**S(11)**	S(1)	S(64)	**S(10)**	S4	S(8)
Other, net	**–**	–	(6)	**–**	–	–
Reclassification adjustments						
Net actuarial loss	**4**	5	1	**–**	1	–
Other, net	**–**	–	1	**–**	1	–
Regulatory asset (increase) decrease						
Recognized for the year						
Net actuarial (loss) gain	**(65)**	10	(735)	**(164)**	64	(73)
Other, net	**–**	(3)	(36)	**–**	–	–
Amortized to income[a]						
Net actuarial loss	**47**	49	7	**13**	–	1
Other, net	**6**	6	1	**5**	4	5

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

The following weighted-average actuarial assumptions were used in the calculation of our net periodic cost:

	Pension Benefits			OPEB		
	2010	2009	2008	**2010**	2009	2008
Discount rate	**6.00%**	6.30%	6.20%	**6.05%**	6.20%	6.20%
Rate of increase in future compensation						
Bargaining	**4.50%**	4.25%	4.25%	**–**	–	–
Supplementary plans	**5.25%**	5.25%	5.25%	**–**	–	–
Expected long-term rate of return on plan assets	**8.75%**	8.75%	9.00%	**6.60%**	6.80%	8.10%

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

BENEFIT OBLIGATIONS AND ACCRUED COSTS

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

Reconciliations of the changes in benefit obligations and the funded status as of December 31, 2010 and 2009 are presented in the table below, followed by related supplementary information.

	Pension Benefits		OPEB	
(in millions)	**2010**	2009	**2010**	2009
Projected benefit obligation at January 1	**S2,422**	S2,234	**S543**	S608
Service cost	**48**	42	**16**	7
Interest cost	**140**	138	**45**	31
Settlements	**–**	(9)	**–**	–
Benefit payments	**(129)**	(124)	**(44)**	(40)
Plan amendment	**1**	3	**–**	–
Actuarial loss (gain)	**127**	138	**173**	(63)
Obligation at December 31	**2,609**	2,422	**733**	543
Fair value of plan assets at December 31	**1,891**	1,673	**33**	55
Funded status	**S(718)**	S(749)	**S(700)**	S(488)

All defined benefit pension plans had accumulated benefit obligations in excess of plan assets, with projected benefit obligations totaling $2.609 billion and $2.422 billion at December 31, 2010 and 2009, respectively. Those plans had accumulated benefit obligations totaling $2.563 billion and $2.378 billion at December 31, 2010 and 2009, respectively, and plan assets of $1.891 billion and $1.673 billion at December 31, 2010 and 2009, respectively.

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

	Pension Benefits		OPEB	
(in millions)	**2010**	2009	**2010**	2009
Current liabilities	**S(10)**	S(9)	**S(22)**	S–
Noncurrent liabilities	**(708)**	(740)	**(678)**	(488)
Funded status	**S(718)**	S(749)	**S(700)**	S(488)

The following table provides a summary of amounts not yet recognized as a component of net periodic cost at December 31:

	Pension Benefits		OPEB	
(in millions)	**2010**	2009	**2010**	2009
Recognized in accumulated other comprehensive loss				
Net actuarial loss (gain)	**S90**	S83	**S5**	S(5)
Other, net	**9**	10	**1**	–
Recognized in regulatory assets, net				
Net actuarial loss	**824**	806	**183**	32
Other, net	**55**	59	**9**	14
Total not yet recognized as a component of net periodic cost[a]	**S978**	S958	**S198**	S41

[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 2011:

(in millions)	Pension Benefits	OPEB
Amortization of actuarial loss[a]	S58	S12
Amortization of other, net[a]	7	5

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

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

	Pension Benefits		OPEB	
	2010	2009	**2010**	2009
Discount rate	**5.65%**	6.00%	**5.75%**	6.05%
Rate of increase in future compensation				
Bargaining	**4.50%**	4.50%	**–**	–
Supplementary plans	**5.25%**	5.25%	**–**	–
Initial medical cost trend rate for pre-Medicare Act benefits	**–**	–	**8.50%**	8.50%
Initial medical cost trend rate for post-Medicare Act benefits	**–**	–	**8.50%**	8.50%
Ultimate medical cost trend rate	**–**	–	**5.00%**	5.00%
Year ultimate medical cost trend rate is achieved	**–**	–	**2017**	2016

The rates of increase in future compensation include the effects of cost of living adjustments and promotions.

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

MEDICAL COST TREND RATE SENSITIVITY

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

(in millions)	
1 percent increase in medical cost trend rate	
Effect on total of service and interest cost	$3
Effect on postretirement benefit obligation	46
1 percent decrease in medical cost trend rate	
Effect on total of service and interest cost	(2)
Effect on postretirement benefit obligation	(31)

ASSETS OF BENEFIT PLANS

In the plan asset reconciliation table that follows, our employer contributions for 2010 and 2009 include contributions directly to pension plan assets of $129 million and $222 million, respectively. Substantially all of the remaining employer contributions represent benefit payments made directly from our assets. The OPEB benefit payments presented in the plan asset reconciliation tables that follow represent the cost after participant contributions. Participant contributions represent approximately 15 percent of gross benefit payments. The OPEB benefit payments are also reduced by prescription drug-related federal subsidies received. In 2010 and 2009, the subsidies totaled $3 million.

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

	Pension Benefits		OPEB	
(in millions)	**2010**	2009	**2010**	2009
Fair value of plan assets January 1	**$1,673**	$1,285	**$55**	$52
Actual return on plan assets	**208**	279	**2**	9
Benefit payments, including settlements	**(129)**	(133)	**(44)**	(40)
Employer contributions	**139**	242	**20**	34
Fair value of plan assets at December 31	**$1,891**	$1,673	**$33**	$55

Our primary objectives when setting investment policies and strategies are to manage the assets of the pension plan to ensure that sufficient funds are available at all times to finance promised benefits and to invest the funds such that contributions are minimized, within acceptable risk limits. We periodically perform studies to analyze various aspects of our pension plans including asset allocations, expected portfolio return, pension contributions and net funded status. One of our key investment objectives is to achieve a rolling 10-year annual return of 6 percent over the rate of inflation. The current target pension asset allocations are 40 percent domestic equity, 20 percent international equity, 25 percent domestic fixed income, 10 percent private equity and timber and 5 percent hedge funds. Tactical shifts (plus or minus 5 percent) in asset allocation from the target allocations are made based on the near-term view of the risk and return tradeoffs of the asset classes. Domestic equity includes investments across large, medium and small capitalized domestic stocks, using investment managers with value, growth and core-based investment strategies. International equity includes investments in foreign stocks in both developed and emerging market countries, using a mix of value and growth based investment strategies. Domestic fixed income primarily includes domestic investment grade fixed income investments. A substantial portion of OPEB plan assets are managed with pension assets. The remaining OPEB plan assets, representing all PEF's OPEB plan assets, are invested in domestic governmental securities.

The following table sets forth by level within the fair value hierarchy of our pension plan assets at December 31, 2010 and 2009. See Note 13 for detailed information regarding the fair value hierarchy.

	Pension Benefit Plan Assets			
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
2010				
Assets				
Cash and cash equivalents	**S–**	**S94**	**S–**	**S94**
International equity securities	**40**	**–**	**–**	**40**
Domestic equity securities	**286**	**–**	**–**	**286**
Private equity securities	**–**	**–**	**147**	**147**
Corporate bonds	**–**	**216**	**–**	**216**
U.S. state and municipal debt	**–**	**19**	**–**	**19**
U.S. and foreign government debt	**144**	**30**	**–**	**174**
Commingled funds	**–**	**847**	**–**	**847**
Hedge funds	**–**	**51**	**2**	**53**
Timber investments	**–**	**–**	**11**	**11**
Interest rate swaps and other investments	**–**	**4**	**–**	**4**
Fair value of plan assets	**S470**	**S1,261**	**S160**	**S1,891**
2009				
Assets				
Cash and cash equivalents	S1	S96	S–	S97
Domestic equity securities	263	1	–	264
Private equity securities	–	–	122	122
Corporate bonds	–	67	–	67
U.S. state and municipal debt	–	4	–	4
U.S. and foreign government debt	25	95	–	120
Mortgage backed securities	–	22	–	22
Commingled funds	–	888	–	888
Hedge funds	–	47	2	49
Timber investments	–	–	14	14
Interest rate swaps and other investments	–	56	–	56
Total assets	S289	S1,276	S138	S1,703
Liabilities				
Foreign currency contracts	S5	S–	S–	S5
Interest rate swaps and other investments	–	25	–	25
Total liabilities	5	25	–	30
Fair value of plan assets	S284	S1,251	S138	S1,673

At December 31, 2010, our other postretirement benefit plan assets had a fair value of $33 million, which consisted of U.S. state and municipal assets classified as Level 2 in the fair value hierarchy as of December 31, 2010.

The following table sets forth the fair value hierarchy of our other postretirement plan assets at December 31, 2009. See Note 13 for detailed information regarding the fair value hierarchy.

	Other Postretirement Benefit Plan Assets			
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	S–	S1	S–	S1
Domestic equity securities	4	–	–	4
Corporate bonds	–	1	–	1
U.S. state and municipal debt	–	32	–	32
U.S. and foreign government debt	–	2	–	2
Commingled funds	–	13	–	13
Hedge funds	–	1	–	1
Interest rate swaps and other investments	–	1	–	1
Fair value of plan assets	S4	S51	S–	S55

A reconciliation of changes in the fair value of our pension plan assets classified as Level 3 in the fair value hierarchy for the years ended December 31 follows:

(in millions)	**Private Equity Securities**	**Hedge Funds**	**Timber Investments**	**Total**
2010				
Balance at January 1	**S122**	**S2**	**S14**	**S138**
Net realized and unrealized gains (losses)[a]	**7**	**–**	**(2)**	**5**
Purchases, sales and distributions, net	**18**	**–**	**(1)**	**17**
Balance at December 31	**S147**	**S2**	**S11**	**S160**
2009				
Balance at January 1	S111	S2	S18	S131
Net realized and unrealized (losses)[a]	(10)	–	(4)	(14)
Purchases, sales and distributions, net	21	–	–	21
Balance at December 31	S122	S2	S14	S138

[a] Substantially all amounts relate to investments held at December 31.

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

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

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

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

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

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

CONTRIBUTION AND BENEFIT PAYMENT EXPECTATIONS

In 2011, we expect to make contributions of $300 million-$400 million 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 2011 through 2015 and in total for 2016 through 2020, in millions, are approximately $168, $176, $178, $189, $193 and $1,016, respectively. The expected benefit payments for the OPEB plan for 2011 through 2015 and in total for 2016 through 2020, in millions, are approximately $45, $48, $51, $53, $56 and $306, 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 2011 through 2015 and in total for 2016 through 2020, in millions, are approximately $4, $5, $5, $6, $6 and $43, respectively.

The Patient Protection and Affordable Care Act (PPACA) and the related Health Care and Education Reconciliation Act, which made various amendments to the PPACA, were enacted in March 2010. The PPACA contains a provision that changes the tax treatment related to a federal subsidy available to sponsors of retiree health benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to the benefits under Medicare Part D. The subsidy is known as the Retiree Drug Subsidy. Employers are not currently taxed on the Retiree Drug Subsidy payments they receive. However, as a result of the PPACA as amended, Retiree Drug Subsidy payments will effectively become taxable in tax years beginning after December 31, 2012, by requiring the amount of the subsidy received to be offset against the employer's deduction for health care expenses. Under GAAP, changes in tax law are accounted for in the period of enactment. Accordingly, an additional tax expense of $22 million has been recognized during the year ended December 31, 2010.

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 DERIVATIVE TRANSACTIONS

We are exposed to various risks related to changes in market conditions. We have a risk management committee that includes senior executives from various business groups. The risk management committee is responsible for administering risk management policies and monitoring compliance with those policies by all subsidiaries. Under our risk policy, we may use a variety of instruments, including swaps, options and forward contracts, to manage exposure to fluctuations in commodity prices and interest rates. Such instruments contain credit risk if the counterparty fails to perform under the contract. We minimize such risk by performing credit and financial reviews using a combination of financial analysis and publicly available credit ratings of such counterparties. Potential nonperformance by counterparties is not expected to have a material effect on our financial position or results of operations.

See Note 13B for information about the fair value of derivatives.

A. Commodity Derivatives

GENERAL

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

ECONOMIC DERIVATIVES

Derivative products, primarily natural gas and oil contracts, may be entered into from time to time for economic hedging purposes. While management believes the economic hedges mitigate exposures to fluctuations in commodity prices, these instruments are not designated as hedges for accounting purposes and are monitored consistent with trading positions.

The Utilities have financial derivative instruments with settlement dates through 2015 related to their exposure to price fluctuations on fuel oil and natural gas purchases. The majority of our financial hedge agreements will settle in 2011 and 2012 Substantially all of these instruments receive regulatory accounting treatment. Related unrealized gains and losses are recorded in regulatory liabilities and regulatory assets, respectively, on the Consolidated Balance Sheets until the contracts are settled (See Note 7A) After settlement of the derivatives and the fuel is consumed, any realized gains or losses are passed through the fuel cost-recovery clause

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

Certain counterparties have posted or held cash collateral in support of these instruments. Progress Energy had a cash collateral asset included in derivative collateral posted of $164 million and $146 million on the Consolidated Balance Sheets at December 31, 2010 and 2009, respectively. At December 31, 2010, Progress Energy had 259.9 million MMBtu notional of natural gas and 20.2 million gallons notional of oil related to outstanding commodity derivative swaps and options that were entered into to hedge forecasted natural gas and oil purchases.

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

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

CASH FLOW HEDGES

At December 31, 2010, all open interest rate hedges will reach their mandatory termination dates within three years. At December 31, 2010, including amounts related to terminated hedges, we had $63 million of after-tax losses recorded in accumulated other comprehensive income related to forward starting swaps. It is expected that in the next twelve months losses of $7 million, net of tax, primarily related to terminated hedges, will be reclassified to interest expense. The actual amounts that will be reclassified to earnings may vary from the expected amounts as a result of changes in the timing of debt issuances at the Parent and the Utilities and changes in market value of currently open forward starting swaps.

At December 31, 2009, including amounts related to terminated hedges, we had $35 million of after-tax losses recorded in accumulated other comprehensive income related to forward starting swaps.

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

At December 31, 2010, we had $1.050 billion notional of open forward starting swaps. During January 2011, Progress Energy terminated $300 million notional of forward starting swaps in conjunction with the issuance of debt (See Note 11A).

At December 31, 2009, we had $325 million notional of open forward starting swaps.

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, 2010 and 2009, we did not have any outstanding positions in such contracts.

C. Contingent Features

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

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

The aggregate fair value of all commodity derivative instruments with credit risk-related contingent features that are in a net liability position at December 31, 2010, is $446 million, for which we have posted collateral of $164 million in the normal course of business. If the credit risk-related contingent features underlying these agreements were triggered at December 31, 2010, we would have been required to post an additional $282 million of collateral with its counterparties.

D. Derivative Instrument and Hedging Activity Information

The following table presents the fair value of derivative instruments at December 31:

Instrument / Balance sheet location	2010		2009	
(in millions)	**Asset**	**Liability**	Asset	Liability
Derivatives designated as hedging instruments				
Interest rate derivatives				
Prepayments and other current assets	**$1**		$5	
Other assets and deferred debits	**3**		14	
Derivative liabilities, current		**$32**		$–
Derivative liabilities, long-term		**7**		–
Total derivatives designated as hedging instruments	**4**	**39**	19	–
Derivatives not designated as hedging instruments				
Commodity derivatives[a]				
Prepayments and other current assets	**11**		11	
Other assets and deferred debits	**4**		9	
Derivative liabilities, current		**226**		189
Derivative liabilities, long-term		**268**		236
CVOs[b]				
Other liabilities and deferred credits		**15**		15
Fair value of derivatives not designated as hedging instruments	**15**	**509**	20	440
Fair value loss transition adjustment[c]				
Derivative liabilities, current		**1**		1
Derivative liabilities, long-term		**3**		4
Total derivatives not designated as hedging instruments	**15**	**513**	20	445
Total derivatives	**$19**	**$552**	$39	$445

[a] *Substantially all of these contracts receive regulatory treatment.*
[b] The Parent issued 98.6 million CVOs in connection with the acquisition of Florida Progress during 2000 (See Note 15).
[c] In 2003, PEC recorded a $38 million pre-tax ($23 million after-tax) fair value loss transition adjustment pursuant to the adoption of new accounting guidance for derivatives. The related liability is being amortized to earnings over the term of the related contracts.

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

Derivatives Designated as Hedging Instruments

Instrument	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives[a]			Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income[a]			Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives[b]		
(in millions)	**2010**	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Commodity cash flow derivatives	**$–**	$1	$(2)	**$–**	$–	$–	**$–**	$–	$–
Interest rate derivatives[c][d]	**(34)**	15	(35)	**(6)**	(6)	(3)	**3**	(3)	1
Total	**$(34)**	$16	$(37)	**$(6)**	$(6)	$(3)	**$3**	$(3)	$1

[a] Effective portion.
[b] Related to ineffective portion and amount excluded from effectiveness testing.
[c] Amounts in accumulated OCI related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.
[d] *Amounts recorded in the Consolidated Statements of Income are classified in interest charges.*

Derivatives Not Designated as Hedging Instruments						
Instrument	Realized Gain or (Loss)[a]			Unrealized Gain or (Loss)[b]		
(in millions)	**2010**	2009	2008	**2010**	2009	2008
Commodity derivatives[a]	**$(324)**	$(659)	$174	**$(398)**	$(387)	$(653)

[a] After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause.
[b] Amounts are recorded in regulatory liabilities and assets, respectively, on the Consolidated Balance Sheets until derivatives are settled.

Instrument	Amount of Gain or (Loss) Recognized in Income on Derivatives		
(in millions)	**2010**	2009	2008
Commodity derivatives[a]	**$–**	$1	$(3)
Fair value loss transition adjustment[a]	**1**	2	$3
CVOs[a]	**–**	19	–
Total	**$1**	$22	$–

[a] Amounts recorded in the Consolidated Statements of Income are classified in other, net.

18. RELATED PARTY TRANSACTIONS

As a part of normal business, we enter into various agreements providing financial or performance assurances to third parties. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. Our guarantees may include performance obligations under power supply agreements, transmission agreements, gas agreements, fuel procurement agreements, trading operations and cash management. Our guarantees also include standby letters of credit and surety bonds. At December 31, 2010, the Parent had issued $473 million of guarantees for future financial or performance assurance on behalf of its subsidiaries. This includes $300 million of guarantees of certain payments of two wholly owned indirect subsidiaries (See Note 23). 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 on the Consolidated Balance Sheets.

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

19. FINANCIAL INFORMATION BY BUSINESS SEGMENT

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

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

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

In the following tables, capital and investment expenditures include property additions, acquisitions of nuclear fuel and other capital investments.

(in millions)	PEC	PEF	Corporate and Other	Eliminations	Total
At and for the year ended December 31, 2010					
Revenues					
Unaffiliated	**$4,922**	**$5,252**	**$16**	**$–**	**$10,190**
Intersegment	**–**	**2**	**248**	**(250)**	**–**
Total revenues	**4,922**	**5,254**	**264**	**(250)**	**10,190**
Depreciation, amortization and accretion	**479**	**426**	**15**	**–**	**920**
Interest income	**3**	**1**	**31**	**(28)**	**7**
Total interest charges, net	**186**	**258**	**331**	**(28)**	**747**
Income tax expense (benefit)[a]	**342**	**267**	**(87)**	**–**	**522**
Ongoing Earnings (loss)	**618**	**462**	**(191)**	**–**	**889**
Total assets	**14,899**	**14,056**	**21,110**	**(17,011)**	**33,054**
Capital and investment expenditures	**1,382**	**991**	**33**	**(24)**	**2,382**
At and for the year ended December 31, 2009					
Revenues					
Unaffiliated	$4,627	$5,249	$9	$–	$9,885
Intersegment	–	2	234	(236)	–
Total revenues	4,627	5,251	243	(236)	9,885
Depreciation, amortization and accretion	470	502	14	–	986
Interest income	5	4	38	(33)	14
Total interest charges, net	195	231	286	(33)	679
Income tax expense (benefit)[a]	295	209	(88)	–	416
Ongoing Earnings (loss)	540	460	(154)	–	846
Total assets	13,502	13,100	20,538	(15,904)	31,236
Capital and investment expenditures	962	1,532	21	(12)	2,503
At and for the year ended December 31, 2008					
Revenues					
Unaffiliated	$4,429	$4,730	$8	$–	$9,167
Intersegment	–	1	361	(362)	–
Total revenues	4,429	4,731	369	(362)	9,167
Depreciation, amortization and accretion	518	306	15	–	839
Interest income	12	9	38	(35)	24
Total interest charges, net	207	208	259	(35)	639
Income tax expense (benefit)[a]	298	181	(87)	–	392
Ongoing Earnings (loss)	531	383	(138)	–	776
Total assets	13,165	12,471	17,483	(13,246)	29,873
Capital and investment expenditures	939	1,601	33	(13)	2,560

[a] Income tax expense (benefit) excludes the tax impact of Ongoing Earnings adjustments.

Management uses the non-GAAP financial measure "Ongoing Earnings" as a performance measure to evaluate the results of our segments and operations. Ongoing Earnings is computed as GAAP net income attributable to controlling interests after excluding discontinued operations and the effects of certain identified gains and charges, which are considered Ongoing Earnings adjustments. Some of the excluded gains and charges have occurred in more than one reporting period but are not considered representative of fundamental core earnings. Management has identified the following Ongoing Earnings adjustments: CVO mark-to-market adjustments because we are unable to predict changes in their fair value and the impact from changes in the tax treatment of the Medicare Part D subsidy because GAAP requires that the impact of the tax law change be accounted for in the period of enactment rather than the affected tax year. Additionally, management has determined that impairments, charges (and subsequent adjustments, if any) recognized for the retirement of generating units prior to the end of their estimated useful lives, cumulative prior period adjustments, net valuation allowances and operating results of discontinued operations are not representative of our ongoing operations and should be excluded in computing Ongoing Earnings.

Reconciliations of consolidated Ongoing Earnings to net income attributable to controlling interests for the years ended December 31 follow:

(in millions)	**2010**	2009	2008
Ongoing Earnings	**$889**	$846	$776
CVO mark-to-market (Note 15)	–	19	–
Impairment, net of tax benefit of $4 and $1	**(6)**	(2)	–
Plant retirement adjustment, net of tax benefit of $1 and $11	**(1)**	(17)	–
Change in tax treatment of the Medicare Part D subsidy (Note 16)	**(22)**	–	–
Cumulative prior period adjustment related to certain employee life insurance benefits, net of tax benefit of $7	–	(10)	–
Valuation allowance and related net operating loss carry forward	–	–	(3)
Continuing income attributable to noncontrolling interests, net of tax	**7**	4	5
Income from continuing operations	**867**	840	778
Discontinued operations, net of tax	**(4)**	(79)	58
Net income attributable to noncontrolling interests, net of tax	**(7)**	(4)	(6)
Net income attributable to controlling interests	**$856**	$757	$830

20. OTHER INCOME AND OTHER EXPENSE

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

(in millions)	**2010**	2009	2008
Nonregulated energy and delivery services income, net	**$10**	$17	$17
CVOs unrealized gain, net (Note 15)	–	19	–
Investment gains (losses), net	**9**	(9)	(13)
Donations	**(23)**	(20)	(25)
Other, net	**4**	(1)	4
Other, net	**$–**	$6	$(17)

21. ENVIRONMENTAL MATTERS

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

A. Hazardous and Solid Waste

The provisions of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), authorize the United States Environmental Protection Agency (EPA) to require the cleanup of hazardous waste sites. This statute imposes retroactive joint and several liabilities. Some states, including North Carolina, South Carolina and Florida, have similar types of statutes. We are periodically notified by regulators, including the EPA and various state agencies, of our involvement or potential involvement in sites that may require investigation and/or remediation. There are presently several sites with respect to which we have been notified of our potential liability by the EPA, the state of North Carolina, the state of Florida, or potentially responsible party (PRP) groups as described below in greater detail. Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under federal and state laws. PEC and PEF are each PRPs at several manufactured gas plant (MGP) sites. We are also currently in the process of assessing potential costs and exposures at other sites. These costs are eligible for regulatory recovery through either base rates or cost-recovery clauses (See Note 7). Both PEC and PEF evaluate potential claims against other PRPs and insurance carriers and plan to submit claims for cost recovery where appropriate. The outcome of potential and pending claims cannot be predicted. A discussion of sites by legal entity follows.

The EPA and a number of states are considering additional regulatory measures that may affect management, treatment, marketing and disposal of coal combustion residues, primarily ash, from each of the Utilities' coal-fired plants. Revised or new laws or regulations under consideration may impose changes in solid waste classifications or groundwater protection environmental controls. On June 21, 2010, the EPA proposed two options for new rules to regulate coal combustion residues. The first option would create a comprehensive program of federally enforceable requirements for coal combustion residues management and disposal as hazardous waste. The other option would have the EPA set performance standards for coal combustion residues management facilities and regulate disposal of coal combustion residues as nonhazardous waste. The EPA did not identify a preferred option. Under both options, the EPA may leave in place a regulatory exemption for approved beneficial uses of coal combustion residues that are recycled. A final rule is expected in late 2011 or 2012. Compliance plans and estimated costs to meet the requirements of new regulations will be determined when any new regulations are finalized. We are also evaluating the effect on groundwater quality from past and current operations, which may result in operational changes and additional measures under existing regulations. These issues are also under evaluation by state agencies. Certain regulated chemicals have been measured in wells near our ash ponds at levels above groundwater quality standards. Additional monitoring and investigation will be conducted. Detailed plans and cost estimates will be determined if these evaluations reveal that corrective actions are necessary. We cannot predict the outcome of this matter.

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

The following tables contain information about accruals for probable and estimable costs related to various environmental sites, which were included in other current liabilities and other liabilities and deferred credits on the Consolidated Balance Sheets:

(in millions)	**MGP and Other Sites**	**Remediation *of Distribution* and Substation Transformers**	**Total**
Balance, December 31, 2009	**$22**	**$20**	**$42**
Amount accrued for environmental loss contingencies[a]	**8**	**13**	**21**
Expenditures for environmental loss contingencies[a]	**(10)**	**(18)**	**(28)**
Balance, December 31, 2010[b]	**$20**	**$15**	**$35**
Balance, December 31, 2008	$31	$22	$53
Amount accrued for environmental loss contingencies[a]	3	13	16
Expenditures for environmental loss contingencies[a]	(12)	(15)	(27)
Balance, December 31, 2009[b]	$22	$20	$42

[a] Amounts accrued and expenditures are for the years ended December 31. For the year ended December 31, 2008, we accrued $8 million for the remediation of MGP and other sites and $17 million for the remediation of distribution and substation transformers. For the year ended December 31, 2008, we spent $8 million for the remediation of MGP and other sites and $28 million for the remediation of distribution and substation transformers.

[b] Expected to be paid out over one to 15 years

In addition to the Utilities' sites discussed under "PEC" and "PEF" below, we incurred indemnity obligations related to certain pre-closing liabilities of divested subsidiaries, including certain environmental matters (See discussion under Guarantees in Note 22C).

PEC

PEC has recorded a minimum estimated total remediation cost for all of its remaining MGP sites based upon its historical experience with remediation of several of its MGP sites. The maximum amount of the range for all the sites cannot be determined at this time. Actual experience may differ from current estimates, and it is probable that estimates will continue to change in the future.

In 2004, the EPA advised PEC that it had been identified as a PRP at the Ward Transformer site located in Raleigh, N.C. (Ward) site. The EPA offered PEC and a number of other PRPs the opportunity to negotiate the removal action for the Ward site and reimbursement to the EPA for the EPA's past expenditures in addressing conditions at the Ward site. Subsequently, PEC and other PRPs signed a settlement agreement, which requires the participating PRPs to remediate the Ward site. At December 31, 2010 and December 31, 2009, PEC's recorded liability for the site was approximately $5 million and $4 million, respectively. In 2008 and 2009, PEC filed civil actions against PRPs seeking contribution for and recovery of costs incurred in remediating the Ward site, as well as a declaratory judgment that defendants are jointly and severally liable for response costs at the site. PEC has settled with a number of the PRPs and is in active settlement negotiations with others. On March 24, 2010, the federal district court in which this matter is pending denied motions to dismiss filed by a number of defendants, but granted several other motions filed by state agencies and successor entities. The court also set a trial date for May 7, 2012. On June 15, 2010, the court entered a case management order and discovery is proceeding. The outcome of these matters cannot be predicted.

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

PEF

The accruals for PEF's MGP and other sites relate to two former MGP sites and other sites associated with PEF that have required, or are anticipated to require, investigation and/or remediation. The maximum amount of the range for all the sites cannot be determined at this time. Actual experience may differ from current estimates, and it is probable that estimates will continue to change in the future.

PEF has received approval from the FPSC for recovery through the ECRC of the majority of costs associated with the remediation of distribution and substation transformers. Under agreements with the Florida Department of Environmental Protection (FDEP), PEF has reviewed all distribution transformer sites and all substation sites for mineral oil-impacted soil caused by equipment integrity issues. Should additional distribution transformer sites be identified outside of this population, the distribution O&M costs will not be recoverable through the ECRC. At December 31, 2010 and December 31, 2009, PEF has recorded a regulatory asset for the probable recovery of costs through the ECRC related to the sites included under the agreement with the FDEP.

B. Air and Water Quality

At December 31, 2010 and 2009, we were subject to various current federal, state and local environmental compliance laws and regulations governing air and water quality, resulting in capital expenditures and increased O&M expenses. These compliance laws and regulations included the Clean Air Interstate Rule (CAIR), the Clean Air Visibility Rule (CAVR), the North Carolina Clean Smokestacks Act, enacted in June 2002

(Clean Smokestacks Act) and mercury regulation PEC's environmental compliance projects under the first phase of Clean Smokestacks Act emission reductions have been placed in service PEF's CAIR projects have been placed in service

In 2008, the U.S. Court of Appeals for the District of Columbia (D.C. Court of Appeals) initially vacated the CAIR in its entirety and subsequently remanded the rule without vacating it for the EPA to conduct further proceedings consistent with the court's prior opinion. On August 2, 2010, the EPA published the proposed Transport Rule, which is the regulatory program that will replace the CAIR when finalized. The proposed Transport Rule contains new emissions trading programs for nitrogen oxides (NOx) and sulfur dioxide (SO_2) emissions as well as more stringent overall emissions targets. The EPA plans to finalize the Transport Rule in the spring of 2011. Due to significant investments in NOx and SO_2 emissions controls and fleet modernization projects completed or under way, we believe both PEC and PEF are well positioned to comply with the Transport Rule. The outcome of the EPA's rulemaking cannot be predicted. Because of the D.C. Court of Appeals' decision that remanded the CAIR, the current implementation of the CAIR continues to fulfill best available retrofit technology (BART) for NOx and SO_2 for BART-affected units under the CAVR. Should this determination change as the Transport Rule is promulgated, CAVR compliance eventually may require consideration of NOx and SO_2 emissions in addition to particulate matter emissions for BART-eligible units.

In 2008, the D.C. Court of Appeals vacated the Clean Air Mercury Rule (CAMR). As a result, the EPA subsequently announced that it will develop a maximum achievable control technology (MACT) standard. The United States District Court for the District of Columbia has issued an order requiring the EPA to issue a final MACT standard for power plants by November 16, 2011. In addition, North Carolina adopted a state-specific requirement. The North Carolina mercury rule contains a requirement that all coal-fired units in the state install mercury controls by December 31, 2017, and requires compliance plan applications to be submitted in 2013. We are currently evaluating the impact of these decisions. The outcome of this matter cannot be predicted.

To date, expenditures at PEF for CAIR regulation primarily relate to environmental compliance projects at Crystal River Units No. 4 and No. 5 (CR4 and CR5). The CR4 project was placed in service in May 2010 and the CR5 project was placed in service in December 2009. Under an agreement with the FDEP, PEF will retire Crystal River Units No. 1 and No. 2 (CR1 and CR2) as coal-fired units and operate emission control equipment at CR4 and CR5. CR1 and CR2 will be retired after the second proposed nuclear unit at Levy completes its first fuel cycle, which was originally anticipated to be around 2020. As discussed in Note 7C, PEF identified in its 2010 nuclear cost-recovery filing regulatory and economic conditions causing schedule shifts such that major construction activities are being postponed until after the NRC issues the Levy COL. As required, PEF has advised the FDEP of these developments that will delay the retirement of CR1 and CR2 beyond the originally anticipated date. We are currently evaluating the impacts of the Levy schedule on PEF's compliance with environmental regulations. We cannot predict the outcome of this matter.

The EPA is continuing to record allowance allocations under the CAIR NOx trading program, in some cases for years beyond the estimated 2011 finalization of the Transport Rule. The EPA's continued recording of CAIR NOx allowance allocations does not guarantee that allowances will continue to be usable for compliance after a replacement rule is finalized or that they will continue to have value in the future. SO_2 emission allowances will be utilized to comply with existing Clean Air Act requirements. PEF's CAIR expenses, including NOx allowance inventory expense, are recoverable through the ECRC. At December 31, 2010 and 2009, PEC had approximately $8 million and $13 million, respectively, in SO_2 emission allowances and an immaterial amount of NOx emission allowances. At December 31, 2010 and 2009, PEF had approximately $5 million and $7 million, respectively, in SO_2 emission allowances and approximately $28 million and $36 million, respectively, in NOx emission allowances.

22. COMMITMENTS AND CONTINGENCIES

A. Purchase Obligations

In most cases, our purchase obligation contracts contain provisions for price adjustments, minimum purchase levels and other financial commitments. The commitment amounts presented below are estimates and therefore will likely differ from actual purchase amounts. At December 31, 2010, the following table reflects contractual cash obligations and other commercial commitments in the respective periods in which they are due:

(in millions)	2011	2012	2013	2014	2015	Thereafter	Total
Fuel[a]	$2,407	$2,365	$1,985	$1,441	$1,224	$6,719	$16,141
Purchased power	475	457	440	382	389	3,461	5,604
Construction obligations[a]	507	230	122	51	55	14	979
Other purchase obligations	122	72	66	41	69	697	1,067
Total	$3,511	$3,124	$2,613	$1,915	$1,737	$10,891	$23,791

[a] PEF signed an engineering, procurement and construction (EPC) agreement on December 31, 2008, with Westinghouse Electric Company LLC and Stone & Webster, Inc. for two approximately 1,100-MW Westinghouse AP1000 nuclear units planned for construction at Levy. Due to uncertainty regarding the ultimate magnitude and timing of obligations under the EPC agreement and the Levy nuclear fabrication contract, the table includes only the obligations related to the selected components of long lead time equipment as discussed under "Fuel and Purchased Power" and "Construction Obligations".

FUEL AND PURCHASED POWER

Through our subsidiaries, we have entered into various long-term contracts for coal, oil, gas and nuclear fuel as well as transportation agreements for the related fuel. Our purchases under these commitments were $2.890 billion, $2.921 billion and $3.078 billion for 2010, 2009 and 2008, respectively. Essentially all fuel and certain purchased power costs incurred by PEC and PEF are eligible for recovery through their respective cost-recovery clauses.

In December 2008, PEF entered into a nuclear fuel fabrication contract for the planned Levy nuclear units. The construction schedule and startup dates were subsequently revised. (See discussion following under "Construction Obligations.") This approximately $400 million contract (for fuel plus related core components), which is excluded from the previous table, is for the period from 2019 through 2033, and contains exit provisions with termination fees that vary based on the circumstance.

Both PEC and PEF have ongoing purchased power contracts, including renewable energy contracts, with certain co-generators, primarily qualified facilities (QFs), with expiration dates ranging from 2011 to 2030. These purchased power contracts generally provide for capacity and energy payments or bundled capacity and energy payments.

PEC executed two long-term tolling agreements for the purchase of all of the power generated from Broad River LLC's Broad River facility. One agreement provides for the purchase of approximately 500 MW of capacity through May 2021 with average minimum annual payments of approximately $24 million, primarily representing capital-related capacity costs. The second agreement provides for the additional purchase of approximately 335 MW of capacity through February 2022 with average annual payments of approximately $24 million representing capital-related capacity costs. Total purchases for both capacity and energy under the Broad River LLC's Broad River facility agreements amounted to $115 million, $46 million and $44 million in 2010, 2009 and 2008, respectively.

In 2007, PEC executed long-term agreements for the purchase of power from Southern Power Company. The agreements provide for firm unit capacity and energy purchases of 305 MW (68 percent of net output) for 2010, 310 MW (30 percent of net output) for 2011 and 150 MW (33 percent of net output) annually thereafter through 2019. Estimated payments for capacity under the agreements are approximately $25 million for 2011 and $12 million annually thereafter through 2019. Total purchases for both capacity and energy under the agreements were $92 million in 2010.

PEC has various pay-for-performance contracts with QFs, including renewable energy, for approximately 31 MW of firm capacity expiring at various times through 2030. In most cases, these contracts account for 100 percent of the net generating capacity of each of the facilities. Payments for both capacity and energy are contingent upon the QFs' ability to generate. Payments made under these contracts were $8 million, $24 million and $55 million in 2010, 2009 and 2008, respectively.

PEF has firm contracts for approximately 657 MW of purchased power with other utilities, including a contract with Southern Company for approximately 424 MW (25 percent of net output) of purchased power annually, which started in 2010 and extends into 2016. A contract with Southern Company for approximately 414 MW (12 percent of net output) of purchased power ended in 2010. Total purchases, for both energy and capacity, under agreements with other utilities amounted to $189 million, $149 million and $178 million for 2010, 2009 and 2008, respectively. Minimum purchases under these contracts, representing capital-related capacity costs, are approximately $64 million, $53 million, $46 million, $65 million and $65 million for 2011 through 2015, respectively, and $24 million payable thereafter.

PEF has ongoing purchased power contracts with certain QFs for 682 MW of firm capacity with expiration dates ranging from 2011 to 2025. Energy payments are based on the actual power taken under these contracts. Capacity payments are subject to the QFs meeting certain contract performance obligations. In most cases, these contracts account for 100 percent of the net generating capacity of each of the facilities. All ongoing commitments have been approved by the FPSC. Total capacity and energy payments made under these contracts amounted to $469 million, $435 million and $440 million for 2010, 2009 and 2008, respectively. Minimum expected future capacity payments under these contracts are $300 million, $313 million, $309 million, $238 million and $244 million for 2011 through 2015, respectively, and $3.006 billion payable thereafter. The FPSC allows the capacity payments to be recovered through a capacity cost-recovery clause, which is similar to, and works in conjunction with, energy payments recovered through the fuel cost-recovery clause.

In 2009, PEC executed a long-term coal transportation agreement by combining, amending and restating previous agreements with Norfolk Southern Railroad. This agreement will support PEC's coal supply needs through June 2020. Expected future transportation payments under this agreement are $223 million, $235 million, $224 million, $213 million and $218 million for 2011 through 2015, respectively, with approximately $1.322 billion payable thereafter. Coal transportation expenses under these agreements were approximately $231 million and $283 million for 2010 and 2009, respectively. PEC's state utility commissions allow fuel-related costs to be recovered through fuel cost-recovery clauses.

PEC has entered into conditional agreements for firm pipeline transportation capacity to support PEC's gas supply needs. Certain agreements are for the period from May 2011 through May 2033. The estimated total cost to PEC associated with these agreements is approximately $2.042 billion, approximately $426 million of which will be classified as a capital lease. Due to the conditions of the capital lease agreement, the capital lease will not be recorded on the Consolidated Balance Sheets until approximately 2012. The transactions are subject to several conditions precedent, including various state regulatory approvals, the completion and commencement of operation of necessary related interstate and intrastate natural gas pipeline system expansions and other contractual provisions. Due to the conditions of these agreements, the estimated costs associated with these agreements are not currently included in fuel commitments or in capital lease assets or obligations.

In April 2008, (and as amended in February 2009), PEF entered into a conditional contract with a pipeline entity for firm pipeline transportation capacity to support PEF's gas supply needs for the period from April 2011 through March 2036. The total cost to PEF associated with this agreement is estimated to be approximately $890 million. In addition to this contract, PEF has entered into additional gas transportation arrangements for the period from 2011 through 2036. The total current notional cost of these additional agreements is estimated to be approximately $281 million. All of these contracts are subject to conditions precedent, including the completion and commencement of operation of necessary related interstate natural gas pipeline system expansions. Due to the conditions of these agreements, the estimated costs associated with these agreements are not currently included in fuel commitments.

CONSTRUCTION OBLIGATIONS

We have purchase obligations related to various capital construction projects. Our total payments under these contracts were $703 million, $818 million and $1.018 billion for 2010, 2009 and 2008, respectively.

PEC has purchase obligations related to various capital projects including new generation and transmission obligations. Total payments under PEC's construction-related contracts were $555 million, $199 million and $140 million for 2010, 2009 and 2008, respectively. Payments for 2010 primarily relate to construction of generating facilities at our sites in Richmond County, N.C., Wayne County, N.C., and New Hanover County, N.C., as discussed in Note 7B.

PEF made payments of $63 million, $243 million and $117 million for 2010, 2009 and 2008, respectively, toward long lead equipment and engineering related to the Levy EPC. Additionally, PEF has other construction obligations related to various capital projects including new generation, transmission and environmental compliance. Total payments under PEF's other construction-related contracts were $84 million, $376 million and $761 million for 2010, 2009 and 2008, respectively

The future construction obligations presented in the previous table for Progress Energy excludes the EPC agreement. The EPC agreement includes provisions for termination. For termination without cause, the EPC agreement contains exit provisions with termination fees, which may be significant, that vary based on the termination circumstances. As discussed in Note 7C in PEF's 2010 nuclear cost-recovery filing, PEF identified a schedule shift in the Levy project that resulted from the NRC's 2009 determination that certain schedule-critical work that PEF had proposed to perform within the scope of its Limited Work Authorization request submitted with the COL application will not be authorized until the NRC issues the COL. Consequently, excavation and foundation preparation work anticipated in the initial schedule cannot begin until the COL is issued, resulting in a project shift of at least 20 months. Since then, regulatory and economic conditions identified in the 2010 nuclear cost-recovery filing have changed such that major construction activities on the Levy project are being postponed until after the NRC issues the COL, expected in 2013 if the current licensing schedule remains on track. We executed an amendment to the EPC agreement in 2010 due to the schedule shifts. Prior to the amendment, estimated payments and associated escalations were $8.608 billion for the multi-year contract and did not assume any joint ownership. Because we have executed an amendment to the EPC agreement and anticipate negotiating additional amendments upon receipt of the COL, we cannot currently predict the timing of when those obligations will be satisfied or the magnitude of any change. Additionally, in light of the schedule shifts in the Levy nuclear project, PEF may incur fees and charges related to the disposition of outstanding purchase orders on long lead time equipment for the Levy nuclear project, which could be material. In June 2010, PEF completed its long lead time equipment disposition analysis to minimize the impact associated with the schedule shift. As a result of the analysis, PEF will continue with selected components of the long lead time equipment. Work has been suspended on the remaining long lead time equipment items, which have total remaining estimated payments and associated escalations of approximately $1.250 billion included in the previously discussed $8.608 billion. PEF has been in suspension negotiations with the selected equipment vendors, which we anticipate concluding by the end of the first quarter of 2011. In its April 30, 2010 nuclear cost-recovery filing, PEF included for rate-making purposes a point estimate of potential Levy disposition fees and charges of $50 million, subject to true-up. However, the amount of disposition fees and charges, if any, cannot be determined until suspension negotiations are completed. We cannot predict the outcome of this matter.

OTHER PURCHASE OBLIGATIONS

We have various other contractual obligations primarily related to PESC service contracts for operational services, PEC service agreements related to its Richmond County, N.C., Wayne County, N.C., and New Hanover County, N.C., generating facilities, and PEF service agreements related to the Hines Energy Complex and the Bartow Plant. Our payments under these agreements were $124 million, $56 million and $110 million for 2010, 2009 and 2008, respectively.

PEC has various other purchase obligations, including obligations for parts and equipment, limestone supply and fleet vehicles. Total purchases under these contracts were $55 million, $14 million and $18 million for 2010, 2009 and 2008, respectively.

On October 1, 2010, PEC entered into long-term service agreements for its Richmond County, N.C., Wayne County, N.C., and New Hanover County, N.C., generating facilities, covering projected maintenance events for each facility through 2033, 2028 and 2029, respectively. The total cost to PEC associated with these agreements is estimated to be approximately $379 million over the term of the agreements. Expected future payments under these agreements are $6 million, $7 million, $11 million, $16 million and $36 million for 2011 through 2015, respectively, with approximately $303 million payable thereafter. Total purchases under these agreements were not material for 2010.

Among PEF's other purchase obligations, PEF has long-term service agreements for the Hines Energy Complex and the Bartow Plant, emission obligations and fleet vehicles. Total payments under these contracts were $35 million, $22 million and $58 million for 2010, 2009 and 2008, respectively. Future obligations are primarily comprised of the long-term service agreements.

B. Leases

We lease office buildings, computer equipment, vehicles, railcars and other property and equipment with various terms and expiration dates. Some rental payments for transportation equipment include minimum rentals plus contingent rentals based on mileage. These contingent rentals are not significant. Our rent expense under operating leases totaled $39 million, $37 million and $38 million for 2010, 2009 and 2008, respectively. Our purchased power expense under agreements classified as operating leases was approximately $61 million, $11 million and $152 million in 2010, 2009 and 2008, respectively.

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

(in millions)	**2010**	2009
Buildings	**S267**	S267
Less: Accumulated amortization	**(46)**	(37)
Total	**S221**	S230

Consistent with the ratemaking treatment for capital leases, capital lease expenses are charged to the same accounts that would be used if the leases were operating leases. Thus, our capital lease expense is generally included in O&M or purchased power expense. Our capital lease expense totaled $25 million, $26 million and $26 million for 2010, 2009 and 2008, respectively.

At December 31, 2010, minimum annual payments, excluding executory costs such as property taxes, insurance and maintenance, under long-term noncancelable operating and capital leases were:

(in millions)	Capital	Operating
2011	S28	S37
2012	28	55
2013	36	80
2014	26	78
2015	25	77
Thereafter	227	866
Minimum annual payments	370	1,193
Less amount representing imputed interest	(149)	
Total	S221	S1,193

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

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

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

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

In 2005, PEF entered into an agreement for a capital lease for a building completed during 2006. The lease term expires March 2047 and provides for minimum annual payments from 2007 through 2026 and no payments from 2027 through 2047. The minimum annual payments are approximately $5 million, for a total of approximately $103 million. During the last 20 years of the lease, approximately $51 million of rental expense will be recorded in the Consolidated Statements of Income.

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

The Utilities are lessors of electric poles, streetlights and other facilities. PEC's minimum rentals receivable under noncancelable leases were $11 million for 2011 and none thereafter. PEC's rents received are contingent upon usage and totaled $33 million, $34 million, $33 million for 2010, 2009 and 2008, respectively. PEF's rents received are based on a fixed minimum rental where price varies by type of equipment or contingent usage and totaled $85 million, $84 million and $81 million for 2010, 2009 and 2008, respectively. PEF's minimum rentals receivable under noncancelable leases are not material for 2011 and thereafter.

C. Guarantees

As a part of normal business, we enter into various agreements providing future financial or performance assurances to third parties. Such agreements include guarantees, standby letters of credit and surety bonds. At December 31, 2010, we do not believe conditions are likely for significant performance under these guarantees. To the extent liabilities are incurred as a result of the activities covered by the guarantees, such liabilities are included in the accompanying Consolidated Balance Sheets.

At December 31, 2010, we have issued guarantees and indemnifications of and for certain asset performance, legal, tax and environmental matters to third parties, including indemnifications made in connection with sales of businesses. At December 31, 2010, our estimated maximum exposure for guarantees and indemnifications for which a maximum exposure is determinable was $307 million. Related to the sales of businesses, the latest specified notice period extends until 2013 for the majority of legal, tax and environmental matters provided for in the indemnification provisions. Indemnifications for the performance of assets extend to 2016. For certain matters for which we receive timely notice, our indemnity obligations may extend beyond the notice period. Certain indemnifications have no limitations as to time or maximum potential future payments. At December 31, 2010 and 2009, we had recorded liabilities related to guarantees and indemnifications to third parties of approximately $31 million and $34 million, respectively. During the year ended December 31, 2010, our accruals and expenditures related to guarantees and indemnifications were not material. As current estimates change, additional losses related to guarantees and indemnifications to third parties, which could be material, may be recorded in the future.

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

D. Other Commitments and Contingencies

ENVIRONMENTAL

We are subject to federal, state and local regulations regarding environmental matters (See Note 21).

SPENT NUCLEAR FUEL MATTERS

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

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

In 2008, the Utilities received a ruling from the United States Court of Federal Claims awarding $83 million in the claim against the DOE for failure to abide by a contract for federal disposition of spent nuclear fuel. A request for reconsideration filed by the United States Department of Justice resulted in an immaterial reduction of the award. Substantially all of the award relates to costs incurred by PEC. On August 15, 2008, the Department of Justice appealed the United States Court of Federal Claims ruling to the D.C. Court of Appeals. On July 21, 2009, the D.C. Court of Appeals vacated and remanded the calculation of damages back to the Trial Court but affirmed the portion of damages awarded that were directed to overhead costs and other indirect expenses. The Department of Justice requested a rehearing en banc but the D.C. Court of Appeals denied the motion on November 3, 2009. In the event that the Utilities recover damages in this matter, such recovery will primarily offset capital assets and therefore is not expected to have a material impact on the Utilities' results of operations. However, the Utilities cannot predict the outcome of this matter.

SYNTHETIC FUELS MATTERS

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

The jury awarded Global $78 million. On October 23, 2009, Global filed a motion to assess prejudgment interest on the award. On November 20, 2009, the court granted the motion and assessed $55 million in prejudgment interest and entered judgment in favor of Global in a total amount of $133 million. During the year ended December 31, 2009, we recorded an after-tax charge of $74 million to discontinued operations. In December 2009, we made a $154 million payment, which represents payment of the total judgment and a required premium equivalent to two years of interest, to the Broward County Clerk of Court bond account. On December 17, 2010, we filed our initial appellate brief. We cannot predict the outcome of this matter.

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

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

NOTICE OF VIOLATION

On April 29, 2009, the EPA issued a notice of violation and opportunity to show cause with respect to a 16,000-gallon oil spill at one of PEC's substations in 2007. The notice of violation did not include specified sanctions sought. Subsequently, the EPA notified PEC that the agency was seeking monetary sanctions that are *de minimus* to our results of operations or financial condition. PEC has entered into consent agreements with the EPA resolving all issues and requiring *de minimus* payment of penalties and performance.

FLORIDA NUCLEAR COST RECOVERY

On February 8, 2010, a lawsuit was filed against PEF in state circuit court in Sumter County, Fla., alleging that the Florida nuclear cost-recovery statute (Section 366.93, Florida Statutes) violates the Florida Constitution, and seeking a refund of all monies collected by PEF pursuant to that statute with interest. The complaint also requests that the court grant class action status to the plaintiffs. On April 6, 2010, PEF filed a motion to dismiss the complaint. The trial judge issued an order on May 3, 2010, dismissing the complaint. The plaintiffs filed an amended complaint on June 1, 2010. PEF believes the lawsuit is without merit and filed a motion to dismiss the amended complaint on July 12, 2010. On October 1, 2010, the plaintiffs filed an appeal of the trial court's order dismissing the complaint. Initial and reply briefs have been filed by the appellants and PEF. The appellants filed their response brief on January 25, 2011. We cannot predict the outcome of this matter.

OTHER LITIGATION MATTERS

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

23. CONDENSED CONSOLIDATING STATEMENTS

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

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

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

We have guaranteed the payment of all distributions related to the Trust's Preferred Securities. At December 31, 2010, the Trust had outstanding 12 million shares of the Preferred Securities with a liquidation value of $300 million. Our guarantees are joint and several, full and unconditional, and are in addition to the joint and several, full and unconditional guarantees previously issued to the Trust and Funding Corp. by Florida Progress. Our subsidiaries have provisions restricting the payment of dividends to the Parent in certain limited circumstances, and as disclosed in Note 11B, there were no restrictions on PEC's or PEF's retained earnings.

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

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

CONDENSED CONSOLIDATING STATEMENT OF INCOME

Year ended December 31, 2010 *(in millions)*	Parent	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Other	Progress Energy, Inc.
Operating revenues					
Operating revenues	$–	$5,268	$4,922	$–	$10,190
Affiliate revenues	–	–	248	(248)	–
Total operating revenues	–	5,268	5,170	(248)	10,190
Operating expenses					
Fuel used in electric generation	–	1,614	1,686	–	3,300
Purchased power	–	977	302	–	1,279
Operation and maintenance	7	912	1,345	(237)	2,027
Depreciation, amortization and accretion	–	426	494	–	920
Taxes other than on income	–	362	225	(7)	580
Other	–	17	13	–	30
Total operating expenses	7	4,308	4,065	(244)	8,136
Operating (loss) income	(7)	960	1,105	(4)	2,054
Other income (expense)					
Interest income	7	2	5	(7)	7
Allowance for equity funds used during construction	–	28	64	–	92
Other, net	(1)	1	(3)	3	–
Total other income, net	6	31	66	(4)	99
Interest charges					
Interest charges	282	293	211	(7)	779
Allowance for borrowed funds used during construction	–	(13)	(19)	–	(32)
Total interest charges, net	282	280	192	(7)	747
(Loss) income from continuing operations before income tax and equity in earnings of consolidated subsidiaries	(283)	711	979	(1)	1,406
Income tax (benefit) expense	(111)	267	378	5	539
Equity in earnings of consolidated subsidiaries	1,027	–	–	(1,027)	–
Income from continuing operations	855	444	601	(1,033)	867
Discontinued operations, net of tax	1	(1)	(4)	–	(4)
Net income	856	443	597	(1,033)	863
Net (income) loss attributable to noncontrolling interests, net of tax	–	(4)	1	(4)	(7)
Net income attributable to controlling interests	$856	$439	$598	$(1,037)	$856

CONDENSED CONSOLIDATING STATEMENT OF INCOME

Year ended December 31, 2009 *(in millions)*	Parent	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Other	Progress Energy, Inc.
Operating revenues					
Operating revenues	$–	$5,259	$4,626	$–	$9,885
Affiliate revenues	–	–	235	(235)	–
Total operating revenues	–	5,259	4,861	(235)	9,885
Operating expenses					
Fuel used in electric generation	–	2,072	1,680	–	3,752
Purchased power	–	682	229	–	911
~~Operation and maintenance~~	~~8~~	~~839~~	~~1,269~~	~~(222)~~	~~1,894~~
Depreciation, amortization and accretion	–	502	484	–	986
Taxes other than on income	–	347	216	(6)	557
Other	–	13	–	–	13
Total operating expenses	8	4,455	3,878	(228)	8,113
Operating (loss) income	(8)	804	983	(7)	1,772
Other income (expense)					
Interest income	10	5	9	(10)	14
Allowance for equity funds used during construction	–	91	33	–	124
Other, net	18	6	(22)	4	6
Total other income, net	28	102	20	(6)	144
Interest charges					
Interest charges	233	280	215	(10)	718
Allowance for borrowed funds used during construction	–	(27)	(12)	–	(39)
Total interest charges, net	233	253	203	(10)	679
(Loss) income from continuing operations before income tax and equity in earnings of consolidated subsidiaries	(213)	653	800	(3)	1,237
Income tax (benefit) expense	(93)	200	286	4	397
Equity in earnings of consolidated subsidiaries	875	–	–	(875)	–
Income from continuing operations	755	453	514	(882)	840
Discontinued operations, net of tax	2	(43)	(38)	–	(79)
Net income	757	410	476	(882)	761
Net (income) loss attributable to noncontrolling interests, net of tax	–	(3)	2	(3)	(4)
Net income attributable to controlling interests	$757	$407	$478	$(885)	$757

CONDENSED CONSOLIDATING STATEMENT OF INCOME

Year ended December 31, 2008 *(in millions)*	Parent	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Other	Progress Energy, Inc.
Operating revenues					
Operating revenues	$–	$4,738	$4,429	$–	$9,167
Affiliate revenues	–	–	361	(361)	–
Total operating revenues	–	4,738	4,790	(361)	9,167
Operating expenses					
Fuel used in electric generation	–	1,675	1,346	–	3,021
Purchased power	–	953	346	–	1,299
Operation and maintenance	3	813	1,346	(342)	1,820
Depreciation, amortization and accretion	–	306	533	–	839
Taxes other than on income	–	309	207	(8)	508
Other	–	1	(4)	–	(3)
Total operating expenses	3	4,057	3,774	(350)	7,484
Operating (loss) income	(3)	681	1,016	(11)	1,683
Other income (expense)					
Interest income	11	9	16	(12)	24
Allowance for equity funds used during construction	–	95	27	–	122
Other, net	–	(18)	(4)	5	(17)
Total other income, net	11	86	39	(7)	129
Interest charges					
Interest charges	201	263	227	(12)	679
Allowance for borrowed funds used during construction	–	(28)	(12)	–	(40)
Total interest charges, net	201	235	215	(12)	639
(Loss) income from continuing operations before income tax and equity in earnings of consolidated *subsidiaries*	(193)	532	840	(6)	1,173
Income tax (benefit) expense	(85)	172	306	2	395
Equity in earnings of consolidated subsidiaries	941	–	–	(941)	–
Income from continuing operations	833	360	534	(949)	778
Discontinued operations, net of tax	(3)	61	–	–	58
Net income	830	421	534	(949)	836
Net income attributable to noncontrolling interests, net of tax	–	(6)	–	–	(6)
Net income attributable to controlling interests	$830	$415	$534	$(949)	$830

CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2010 *(in millions)*	Parent	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Other	Progress Energy, Inc.
ASSETS					
Utility plant, net	$–	$10,189	$10,961	$90	$21,240
Current assets					
Cash and cash equivalents	110	270	231	–	611
Receivables, net	–	497	536	–	1,033
Notes receivable from affiliated companies	14	48	115	(177)	–
Regulatory assets	–	105	71	–	176
Derivative collateral posted	–	140	24	–	164
Income taxes receivable	14	1	90	(53)	52
Prepayments and other current assets	16	750	894	(220)	1,440
Total current assets	154	1,811	1,961	(450)	3,476
Deferred debits and other assets					
Investment in consolidated subsidiaries	14,316	–	–	(14,316)	–
Regulatory assets	–	1,387	987	–	2,374
Goodwill	–	–	–	3,655	3,655
Nuclear decommissioning trust funds	–	554	1,017	–	1,571
Other assets and deferred debits	75	238	894	(469)	738
Total deferred debits and other assets	14,391	2,179	2,898	(11,130)	8,338
Total assets	$14,545	$14,179	$15,820	$(11,490)	$33,054
CAPITALIZATION AND LIABILITIES					
Equity					
Common stock equity	$10,023	$4,957	$5,686	$(10,643)	$10,023
Noncontrolling interests	–	4	–	–	4
Total equity	10,023	4,961	5,686	(10,643)	10,027
Preferred stock of subsidiaries	–	34	59	–	93
Long-term debt, affiliate	–	309	–	(36)	273
Long-term debt, net	3,989	4,182	3,693	–	11,864
Total capitalization	14,012	9,486	9,438	(10,679)	22,257
Current liabilities					
Current portion of long-term debt	205	300	–	–	505
Notes payable to affiliated companies	–	175	3	(178)	–
Derivative liabilities	18	188	53	–	259
Other current liabilities	278	1,002	1,184	(273)	2,191
Total current liabilities	501	1,665	1,240	(451)	2,955
Deferred credits and other liabilities					
Noncurrent income tax liabilities	3	528	1,608	(443)	1,696
Regulatory liabilities	–	1,084	1,461	90	2,635
Other liabilities and deferred credits	29	1,416	2,073	(7)	3,511
Total deferred credits and other liabilities	32	3,028	5,142	(360)	7,842
Total capitalization and liabilities	$14,545	$14,179	$15,820	$(11,490)	$33,054

CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2009 *(in millions)*	Parent	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Other	Progress Energy, Inc.
ASSETS					
Utility plant, net	$–	$9,733	$9,886	$114	$19,733
Current assets					
Cash and cash equivalents	606	72	47	–	725
Receivables, net	–	358	442	–	800
Notes receivable from affiliated companies	30	46	303	(379)	–
Regulatory assets	–	54	88	–	142
~~Derivative collateral posted~~	~~–~~	~~139~~	~~7~~		~~146~~
Income taxes receivable	5	97	50	(7)	145
Prepayments and other current assets	14	800	935	(176)	1,573
Total current assets	655	1,566	1,872	(562)	3,531
Deferred debits and other assets					
Investment in consolidated subsidiaries	13,348	–	–	(13,348)	–
Regulatory assets	–	1,307	873	(1)	2,179
Goodwill	–	–	–	3,655	3,655
Nuclear decommissioning trust funds	–	496	871	–	1,367
Other assets and deferred debits	166	202	923	(520)	771
Total deferred debits and other assets	13,514	2,005	2,667	(10,214)	7,972
Total assets	$14,169	$13,304	$14,425	$(10,662)	$31,236
CAPITALIZATION AND LIABILITIES					
Equity					
Common stock equity	$9,449	$4,590	$5,085	$(9,675)	$9,449
Noncontrolling interests	–	3	3	–	6
Total equity	9,449	4,593	5,088	(9,675)	9,455
Preferred stock of subsidiaries	–	34	59	–	93
Long-term debt, affiliate	–	309	115	(152)	272
Long-term debt, net	4,193	3,883	3,703	–	11,779
Total capitalization	13,642	8,819	8,965	(9,827)	21,599
Current liabilities					
Current portion of long-term debt	100	300	6	–	406
Short-term debt	140	–	–	–	140
Notes payable to affiliated companies	–	376	3	(379)	–
Derivative liabilities	–	161	29	–	190
Other current liabilities	261	941	902	(182)	1,922
Total current liabilities	501	1,778	940	(561)	2,658
Deferred credits and other liabilities					
Noncurrent income tax liabilities	–	320	1,258	(382)	1,196
Regulatory liabilities	–	1,103	1,293	114	2,510
Other liabilities and deferred credits	26	1,284	1,969	(6)	3,273
Total deferred credits and other liabilities	26	2,707	4,520	(274)	6,979
Total capitalization and liabilities	$14,169	$13,304	$14,425	$(10,662)	$31,236

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Year ended December 31, 2010 *(in millions)*	Parent	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Other	Progress Energy, Inc.
Net cash provided by operating activities	$16	$1,181	$1,562	$(222)	$2,537
Investing activities					
Gross property additions	–	(1,014)	(1,231)	24	(2,221)
Nuclear fuel additions	–	(38)	(183)	–	(221)
Purchases of available-for-sale securities and other investments	–	(6,391)	(618)	–	(7,009)
Proceeds from available-for-sale securities and other investments	–	6,395	595	–	6,990
Changes in advances to affiliated companies	15	(2)	188	(201)	–
Return of investment in consolidated subsidiaries	54	–	–	(54)	–
Contributions to consolidated subsidiaries	(171)	–	–	171	–
Other investing activities	113	60	3	(115)	61
Net cash provided (used) by investing activities	11	(990)	(1,246)	(175)	(2,400)
Financing activities					
Issuance of common stock, net	434	–	–	–	434
Dividends paid on common stock	(717)	–	–	–	(717)
Dividends paid to parent	–	(102)	(100)	202	–
Dividends paid to parent in excess of retained earnings	–	–	(54)	54	–
Net decrease in short-term debt	(140)	–	–	–	(140)
Proceeds from issuance of long-term debt, net	–	591	–	–	591
Retirement of long-term debt	(100)	(300)	–	–	(400)
Cash distributions to noncontrolling interest	–	(3)	–	(3)	(6)
Changes in advances from affiliated companies	–	(201)	–	201	–
Contributions from parent	–	33	152	(185)	–
Other financing activities	–	(11)	(130)	128	(13)
Net cash (used) provided by financing activities	(523)	7	(132)	397	(251)
Net (decrease) increase in cash and cash equivalents	(496)	198	184	–	(114)
Cash and cash equivalents at beginning of year	606	72	47	–	725
Cash and cash equivalents at end of year	$110	$270	$231	$–	$611

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Year ended December 31, 2009 *(in millions)*	Parent	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Other	Progress Energy, Inc.
Net cash provided by operating activities	S108	S1,079	S1,282	S(198)	S2,271
Investing activities					
Gross property additions	–	(1,449)	(858)	12	(2,295)
Nuclear fuel additions	–	(78)	(122)	–	(200)
Proceeds from sales of assets to affiliated companies	–	–	11	(11)	–
Purchases of available-for-sale securities and other investments	–	(1,548)	(802)	–	(2,350)
Proceeds from available-for-sale securities and other investments	–	1,558	756	–	2,314
Changes in advances to affiliated companies	4	(2)	(172)	170	–
Return of investment in consolidated subsidiaries	12	–	–	(12)	–
Contributions to consolidated subsidiaries	(688)	–	–	688	–
Other investing activities	–	–	(1)	–	(1)
Net cash used by investing activities	(672)	(1,519)	(1,188)	847	(2,532)
Financing activities					
Issuance of common stock, net	623	–	–	–	623
Dividends paid on common stock	(693)	–	–	–	(693)
Dividends paid to parent	–	(1)	(200)	201	–
Dividends paid to parent in excess of retained earnings	–	–	(12)	12	–
Payments of short-term debt with original maturities greater than 90 days	(629)	–	–	–	(629)
Net decrease in short-term debt	100	(371)	(110)	–	(381)
Proceeds from issuance of long-term debt, net	1,683	–	595	–	2,278
Retirement of long-term debt	–	–	(400)	–	(400)
Cash distributions to noncontrolling interests	–	(3)	–	(3)	(6)
Changes in advances from affiliated companies	–	170	–	(170)	–
Contributions from parent	–	653	49	(702)	–
Other financing activities	(2)	(9)	12	13	14
Net cash provided (used) by financing activities	1,082	439	(66)	(649)	806
Net increase (decrease) in cash and cash equivalents	518	(1)	28	–	545
Cash and cash equivalents at beginning of year	88	73	19	–	180
Cash and cash equivalents at end of year	S606	S72	S47	S–	S725

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Year ended December 31, 2008 *(in millions)*	Parent	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Other	Progress Energy, Inc.
Net cash (used) provided by operating activities	$(90)	$221	$1,114	$(27)	$1,218
Investing activities					
Gross property additions	–	(1,553)	(794)	14	(2,333)
Nuclear fuel additions	–	(43)	(179)	–	(222)
Proceeds from sales of assets to affiliated companies	–	12	–	(12)	–
Purchases of available-for-sale securities and other investments	(7)	(783)	(800)	–	(1,590)
Proceeds from available-for-sale securities and other investments	–	788	746	–	1,534
~~Changes in advances to affiliated companies~~	~~123~~	~~105~~	~~8~~	~~(236)~~	~~–~~
Return of investment in consolidated subsidiaries	20	10	–	(30)	–
Contributions to consolidated subsidiaries	(101)	–	–	101	–
Other investing activities	–	57	13	–	70
Net cash provided (used) by investing activities	35	(1,407)	(1,006)	(163)	(2,541)
Financing activities					
Issuance of common stock, net	132	–	–	–	132
Dividends paid on common stock	(642)	–	–	–	(642)
Dividends paid to parent	–	(33)	–	33	–
Dividends paid to parent in excess of retained earnings	–	–	(20)	20	–
Payments of short-term debt with original maturities greater than 90 days	(176)	–	–	–	(176)
Proceeds from issuance of short-term debt with original maturities greater than 90 days	629	–	–	–	629
Net increase in short-term debt	15	371	110	–	496
Proceeds from issuance of long-term debt, net	–	1,475	322	–	1,797
Retirement of long-term debt	–	(577)	(300)	–	(877)
Cash distributions to noncontrolling interests	–	(85)	(10)	10	(85)
Changes in advances from affiliated companies	–	(21)	(215)	236	–
Contributions from parent	–	85	29	(114)	–
Other financing activities	–	1	(32)	5	(26)
Net cash (used) provided by financing activities	(42)	1,216	(116)	190	1,248
Net (decrease) increase in cash and cash equivalents	(97)	30	(8)	–	(75)
Cash and cash equivalents at beginning of year	185	43	27	–	255
Cash and cash equivalents at end of year	$88	$73	$19	$–	$180

24. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data was as follows:

(in millions except per share data)	First	Second	Third	Fourth
2010				
Operating revenues	**$2,535**	**$2,372**	**$2,962**	**$2,321**
Operating income	**494**	**440**	**753**	**367**
Income from continuing operations	**191**	**181**	**365**	**130**
Net income	**190**	**180**	**365**	**128**
Net income attributable to controlling interests	**190**	**180**	**361**	**125**
Common stock data				
Basic and diluted earnings per common share				
Income from continuing operations attributable to controlling interests, net of tax	**0.67**	**0.62**	**1.23**	**0.43**
Net income attributable to controlling interests	**0.67**	**0.62**	**1.23**	**0.42**
Dividends declared per common share	**0.620**	**0.620**	**0.620**	**0.620**
Market price per share				
High	**41.35**	**40.69**	**44.82**	**45.61**
Low	**37.04**	**37.13**	**38.96**	**43.08**
2009				
Operating revenues	$2,442	$2,312	$2,824	$2,307
Operating income	393	379	676	324
Income from continuing operations	183	175	350	132
Net income	183	174	248	156
Net income attributable to controlling interests	182	174	247	154
Common stock data				
Basic and diluted earnings per common share				
Income from continuing operations attributable to controlling interests, net of tax	0.66	0.62	1.24	0.46
Net income attributable to controlling interests	0.66	0.62	0.88	0.55
Dividends declared per common share	0.620	0.620	0.620	0.620
Market price per share				
High	40.85	38.20	40.05	42.20
Low	31.35	33.50	35.97	36.67

In the opinion of management, all adjustments necessary to fairly present amounts shown for interim periods have been made. Results of operations for an interim period may not give a true indication of results for the year. Typically, weather conditions in our service territories directly influence the demand for electricity and affect the price of energy commodities necessary to provide electricity to our customers. As a result, our overall operating results may fluctuate substantially on a seasonal basis.

In the third quarter of 2009, we recognized $102 million of expense from discontinued operations attributable to controlling interests, net of tax, primarily related to a jury delivering a verdict in a lawsuit against Progress Energy and a number of our subsidiaries and affiliates previously engaged in coal-based solid synthetic fuels operations. In the fourth quarter of 2009, we recognized $25 million of earnings from discontinued operations primarily related to the tax benefits associated with the payment of the judgment. See Note 22D for additional information.

During the fourth quarter of 2009, we recorded a cumulative prior period adjustment related to certain employee life insurance benefits The impact of this adjustment decreased total other income, net, by $17 million and decreased net income attributable to controlling interests by $10 million The prior period adjustment is not material to 2009 or previously issued financial statements.

25. SUBSEQUENT EVENT – MERGER AGREEMENT

On January 8, 2011, Duke Energy and Progress Energy entered into an Agreement and Plan of Merger (the Merger Agreement). Pursuant to the Merger Agreement, Progress Energy will be acquired by Duke Energy in a stock-for-stock transaction (the Merger) and continue as a wholly owned subsidiary of Duke Energy.

Under the terms of the Merger Agreement, each share of Progress Energy common stock will be cancelled and converted into the right to receive 2.6125 shares of Duke Energy common stock. Each outstanding option to acquire, and each outstanding equity award relating to, one share of Progress Energy common stock will be converted into an option to acquire, or an equity award relating to, 2.6125 shares of Duke Energy common stock. The Merger Agreement contemplates a reverse stock split of Duke Energy stock, effective immediately prior to the Merger. The board of directors of Duke Energy has approved a reverse stock split, at a ratio of 1-for-2 or 1-for-3, to be determined by the board of directors of Duke Energy after consultation with Progress Energy, which is subject to approval by the shareholders of Duke Energy and would be effective prior to the Merger. Accordingly, the 2.6125 exchange ratio for Progress Energy common shares, options and equity awards will be adjusted based on Duke Energy's reverse stock split.

The combined company, to be called Duke Energy, will have an 18-member board of directors. The board will be comprised of, subject to their ability and willingness to serve, all 11 current directors of Duke Energy and seven current directors of Progress Energy. At the time of the Merger, William D. Johnson, Chairman, President and CEO of Progress Energy, will be President and CEO of Duke Energy and James E. Rogers, Chairman, President and CEO of Duke Energy, will be the Executive Chairman of the board of directors of Duke Energy, subject to their ability and willingness to serve.

Consummation of the Merger is subject to customary conditions, including, among others things, approval of the shareholders of each company, expiration or termination of the applicable Hart-Scott-Rodino Act waiting period, and receipt of approvals, to the extent required, from the FERC, the Federal Communications Commission, the NRC, the NCUC, the Kentucky Public Service Commission, the SCPSC, the FPSC, the Indiana Utility Regulatory Commission, and the Ohio Public Utilities Commission.

The Merger Agreement includes certain restrictions, limitations and prohibitions as to actions we may or may not take in the period prior to consummation of the Merger. Among other restrictions, the Merger Agreement limits our total capital spending, limits the extent to which we can obtain financing through long-term debt and equity, and we may not, without the prior approval of Duke Energy, increase our quarterly common stock dividend of $0.62 per share.

Certain substantial changes in ownership of Progress Energy, including the Merger, can impact the timing of the utilization of tax credit carry forwards and net operating loss carry forwards (See Note 14).

The Merger Agreement contains certain termination rights for both companies and under specified circumstances we may be required to pay Duke Energy $400 million and Duke Energy may be required to pay us $675 million. In addition, under specified circumstances each party may be required to reimburse the other party for up to $30 million of merger-related expenses.

Progress Energy shareholders have filed class action lawsuits in the state and federal courts in North Carolina against Progress Energy and each of the members of Progress Energy's board of directors. The lawsuits seek to prohibit the Merger and, in some cases, seek damages in the event that the Merger is completed. Progress Energy intends to vigorously defend against these claims We cannot predict the outcome of this matter.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA (UNAUDITED)

Years ended December 31 *(in millions, except per share data)*	**2010**	2009	2008	2007	2006
Operating results					
Operating revenues	**$10,190**	$9,885	$9,167	$9,153	$8,724
Income from continuing operations	**867**	840	778	702	567
Net income	**863**	761	836	496	620
Net income attributable to controlling interests	**856**	757	830	504	571
Per share data – basic and diluted earnings					
Income from continuing operations attributable to controlling interests, net of tax	**$2.96**	$2.99	$2.95	$2.70	$2.19
Net income attributable to controlling interests	**2.95**	2.71	3.17	1.96	2.27
Assets	**$33,054**	$31,236	$29,873	$26,338	$25,832
Capitalization and debt					
Common stock equity	**$10,023**	$9,449	$8,687	$8,395	$8,259
Noncontrolling interests	**4**	6	6	84	10
Preferred stock of subsidiaries	**93**	93	93	93	93
Long-term debt, net[a]	**12,137**	12,051	10,659	8,737	8,835
Current portion of long-term debt	**505**	406	–	877	324
Short-term debt	–	140	1,050	201	–
Capital lease obligations	**221**	231	239	247	72
Total capitalization and debt	**$22,983**	$22,376	$20,734	$18,634	$17,593
Other financial data					
Return on average common stock equity (percent)	**8.70**	8.13	9.59	5.97	7.05
Ratio of earnings to fixed charges	**2.72**	2.65	2.66	2.62	2.35
Number of common shareholders of record	**51,975**	53,922	55,919	58,991	64,899
Book value per common share	**$34.05**	$33.53	$32.97	$32.41	$32.53
Dividends declared per common share	**$2.48**	$2.48	$2.47	$2.45	$2.43
Energy supply (millions of kilowatt-hours)					
Generated					
Steam	**44,971**	40,420	46,771	51,163	48,770
Nuclear	**21,624**	29,412	30,565	30,336	30,602
Combustion turbines/combined cycle	**27,856**	21,254	15,557	13,319	11,857
Hydro	**608**	651	429	415	594
Purchased	**13,473**	11,996	14,956	14,994	14,664
Total energy supply (Company share)	**108,532**	103,733	108,278	110,227	106,487
Jointly owned share[b]	**5,228**	5,500	5,780	5,351	5,224
Total system energy supply	**113,760**	109,233	114,058	115,578	111,711

[a] Includes long-term debt to affiliated trust of $273 million at December 31, 2010, $272 million at December 31, 2009 and 2008, and $271 million at December 31, 2007 and 2006 (See Note 23).

[b] Amounts represent joint owners' share of the energy supplied from the six generating facilities that are jointly owned.

RECONCILIATION OF ONGOING EARNINGS PER SHARE TO REPORTED GAAP EARNINGS PER SHARE (UNAUDITED)

Progress Energy's management uses Ongoing Earnings per share to evaluate the operations of the company and to establish goals for management and employees. Management believes this non-GAAP measure is appropriate for understanding the business and assessing our potential future performance, because excluded items are limited to those that we believe are not representative of our fundamental core earnings. Ongoing Earnings as presented here may not be comparable to similarly titled measures used by other companies.

Reconciling adjustments from Ongoing Earnings to GAAP earnings for the years ended December 31 were as follows:

	2010	2009	2008
Ongoing Earnings per share	**$3.06**	$3.03	$2.96
CVO mark-to-market	–	0.07	–
Impairment	**(0.02)**	(0.01)	–
Plant retirement charge	–	(0.06)	–
Change in the tax treatment of the Medicare Part D subsidy	**(0.08)**	–	–
Cumulative prior period adjustment	–	(0.04)	–
Valuation allowance and related net operating loss carry forward	–	–	(0.01)
Discontinued operations	**(0.01)**	(0.28)	0.22
Reported GAAP earnings per share	**$2.95**	$2.71	$3.17
Shares outstanding (millions)	**291**	279	262

CVO Mark-to-Market

In connection with the acquisition of Florida Progress Corporation, Progress Energy issued 98.6 million CVOs. Each CVO represents the right of the holder to receive contingent payments based on net after-tax cash flows above certain levels of four synthetic fuels facilities purchased by subsidiaries of Florida Progress Corporation in October 1999. The CVO liability is valued at fair value, and unrealized gains and losses from changes in fair value are recognized in earnings. Progress Energy is unable to predict the changes in the fair value of the CVOs, and management does not consider this adjustment to be representative of the company's fundamental core earnings.

Impairment

The company has recorded impairments of certain miscellaneous investments and other assets. Management does not consider this adjustment to be representative of the company's fundamental core earnings.

Plant Retirement Charges

The company recognized charges for the impact of PEC's decision to retire certain coal-fired generating units, with resulting reduced emissions for compliance with the Clean Smokestacks Act's 2013 emission targets. Since the coal-fired generating units will be retired prior to their estimated useful lives, management does not consider this charge to be representative of the company's fundamental core earnings.

Change in the Tax Treatment of the Medicare Part D Subsidy

The federal Patient Protection and Affordable Care Act (PPACA) and the related Health Care and Education Reconciliation Act, which made various amendments to the PPACA, were enacted in March 2010. Under prior law, employers could claim a deduction for the entire cost of providing retiree prescription drug coverage even though a portion of the cost was offset by the retiree drug subsidy received. As a result of the PPACA, as amended, retiree drug subsidy payments will effectively become taxable in tax years beginning after December 31, 2012, by requiring the amount of the subsidy received to be offset against the employer's deduction. Under GAAP, changes in tax law are accounted for in the period of enactment. Management does not consider this change in tax treatment to be representative of the company's fundamental core earnings.

Cumulative Prior Period Adjustment

The company recorded a cumulative prior period adjustment charge related to certain employee life insurance benefits. Management does not consider this adjustment to be representative of the company's fundamental core earnings. The prior period adjustment was not material to 2009 or previously issued financial statements.

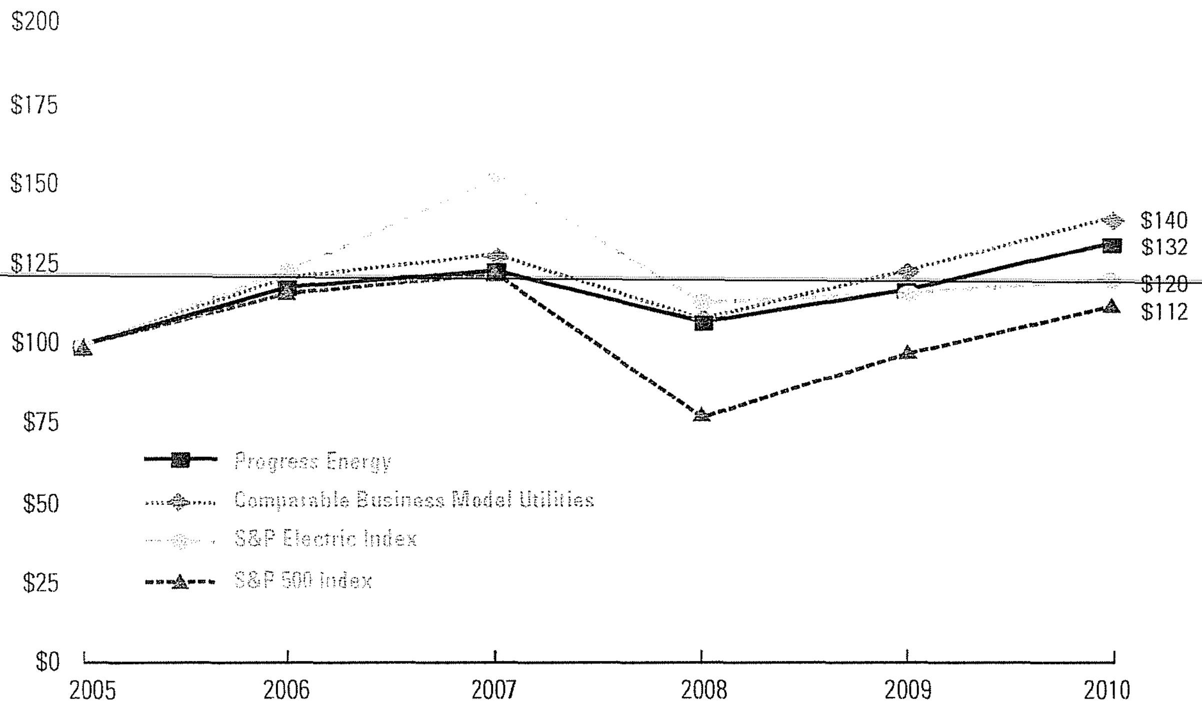
Valuation Allowance and Related Net Operating Loss Carry Forward

Progress Energy previously recorded a deferred tax asset for a state net operating loss carry forward upon the sale of nonregulated generating facilities and energy marketing and trading operations. In 2008, the company recorded an additional deferred tax asset related to the state net operating loss carry forward due to a change in estimate based on 2007 tax return filings. The company also evaluated the total state net operating loss carry forward and partially impaired it by recording a valuation allowance, which more than offset the change in estimate. Management does not believe this net valuation allowance is representative of the company's fundamental core earnings.

Discontinued Operations

The company has reduced its business risk by exiting nonregulated businesses to focus on the core operations of the utilities. The discontinued operations of these nonregulated businesses decreased earnings per share by $0.01 for the quarter and increased earnings per share by $0.09 for the same period last year. The prior-year impact was due primarily to adjustments related to a litigation judgment against our former Synthetic Fuels businesses. Due to the disposition of these assets, management does not consider this activity to be representative of the company's fundamental core earnings.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN* AMONG PROGRESS ENERGY, INC., COMPARABLE BUSINESS MODEL UTILITIES, S&P ELECTRIC INDEX AND S&P 500 STOCK INDEX



Measurement Period (Fiscal Year Covered)	2005	2006	2007	2008	2009	2010
Progress Energy, Inc.	$100	$118	$123	$107	$117	$132
Comparable Business Model Utilities	100	121	128	108	123	140
S&P Electric Index	100	123	152	113	116	120
S&P 500 Index	100	116	122	77	97	112

*$100 invested on 12/31/2005 in Stock or Index. Including reinvestment of dividends. Fiscal year ended December 31.

Over the past decade, as deregulation has occurred in several geographic areas of the United States, the investor community has separated the utility industry into a number of subsectors. The two main themes of separation are 1) the aspect of the value chain in which the company participates: generation, transmission and/or delivery, and 2) the proportion of its business governed by rate-of-return regulation as opposed to competitive markets. Thus, the industry now has subsectors identified frequently as competitive merchant, regulated delivery, regulated integrated, and unregulated integrated (typically state-regulated delivery and unregulated generation). Each of these subsectors typically differs in financial valuation characteristics and risk.

Progress Energy generally is identified as being in the regulated integrated subsector. This means Progress Energy and its peer companies are primarily rate-of-return regulated, operate in the full range of the value chain, and typically have requirements to serve all customers under state utility regulations. The companies similar to us from a business model perspective that are generally categorized in our subsector are American Electric Power, DPL, Duke Energy, Consolidated Edison, Great Plains Energy, Alliant Energy, NV Energy, PG&E, Pinnacle West, Portland General Electric, SCANA, Southern Company, Wisconsin Energy, Westar Energy and Xcel Energy.

It should be noted that, although the business models of several of these companies may not have been comparable to ours five years ago, their business models and ours are now similar due to industry evolution. The Company is providing this alternative market capitalization weighted index to show an additional comparison of Progress Energy's total return performance.

Notice of Annual Meeting

Progress Energy's 2011 annual meeting of shareholders will be held May 11, 2011, at 10 a m at the Progress Energy Center for the Performing Arts in Raleigh, N.C. A formal notice of the meeting will be mailed to shareholders in late March

Transfer Agent and Registrar Mailing Address

Progress Energy, Inc
c/o Computershare Trust Company
250 Royall Street
Canton, MA 02021
Toll-free phone number **1.866.290.4388**

Shareholder Information and Inquiries

Obtain information on your account 24 hours a day, seven days a week by calling our stock transfer agent's shareholder information line. This automated system features Progress Energy's common stock closing price, dividend information and stock transfer information. Call toll-free **1.866.290.4388**.

Other questions concerning stock ownership may be directed to Progress Energy's Shareholder Relations by calling **919.546.3014** or by writing to the following address:

Progress Energy, Inc
Shareholder Relations
410 S. Wilmington Street
Raleigh, NC 27601-1849

Stock Listings

Progress Energy's common stock is listed and traded under the symbol PGN on the New York Stock Exchange (NYSE) in addition to regional stock exchanges across the United States

Shareholder Programs

Progress Energy offers the Progress Energy Investor Plus Plan, a direct stock-purchase and dividend-reinvestment plan, and direct deposit of cash dividends to bank accounts for the convenience of shareholders. For information on these programs, contact Computershare or the company

Dividend-reinvestment statements and tax documents can be electronically delivered to shareholders To take advantage of electronic delivery of documents, go to **computershare.com/investor**, log in to your account and select eDelivery options

Securities Analyst Inquiries

Securities analysts, portfolio managers and representatives of financial institutions seeking information about Progress Energy should contact Robert F Drennan, Jr., vice president, Investor Relations, at the corporate headquarters address or call **919.546.7474**.

Additional Information

Progress Energy files periodic reports with the Securities and Exchange Commission that contain additional information about the company Copies are available to shareholders free of charge through the Investors section of our website at **www.progress-energy.com** or upon written request to the company's treasurer at the corporate headquarters address.

This annual report is submitted for shareholders' information and is available for delivery to shareholders in connection with our 2011 annual meeting of shareholders. It is not intended for use in connection with any sale or purchase of, or any offer or solicitation of offers to buy or sell, securities

Cautionary Statement

This report contains forward-looking statements relating to Progress Energy's business. Our business is subject to numerous risks and uncertainties, which could cause actual results to differ materially from those expressed or implied by these forward-looking statements We refer you to our Annual Report on Form 10-K for a discussion of such risks and uncertainties

Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-012

REQUEST:

~~Refer to page 6, lines 11-20 of the Johnson Testimony.~~

a. Provide the document containing Progress's Code of Ethics.

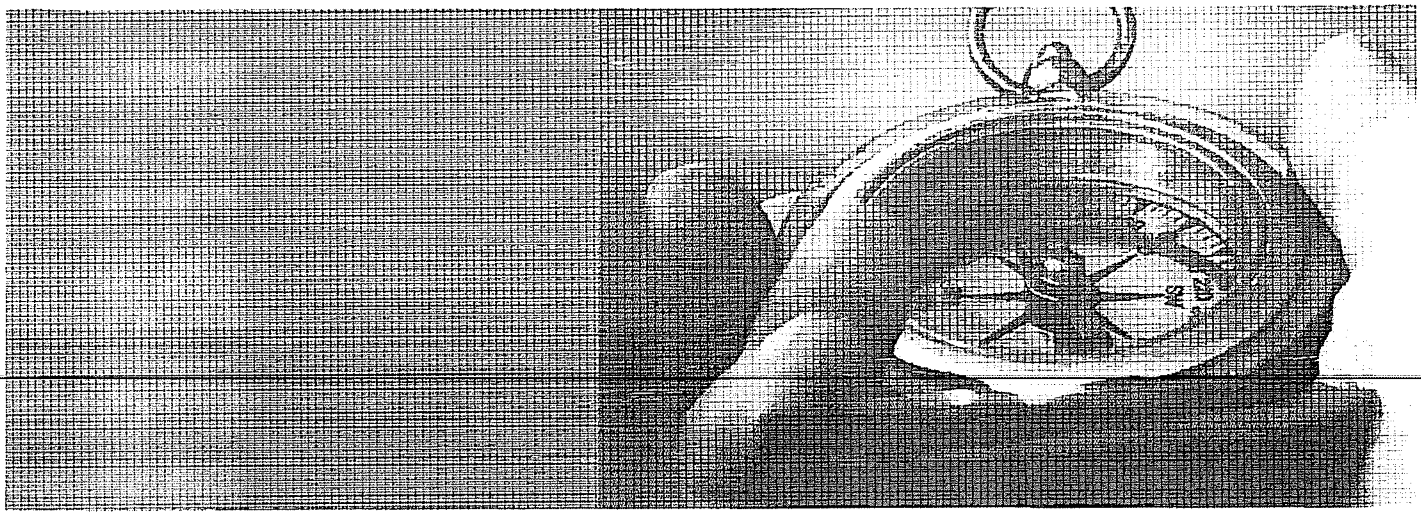
b. Explain whether Duke Energy currently has a similar code of ethics for its employees and directors. If yes, provide the Duke Energy code of ethics.

RESPONSE:

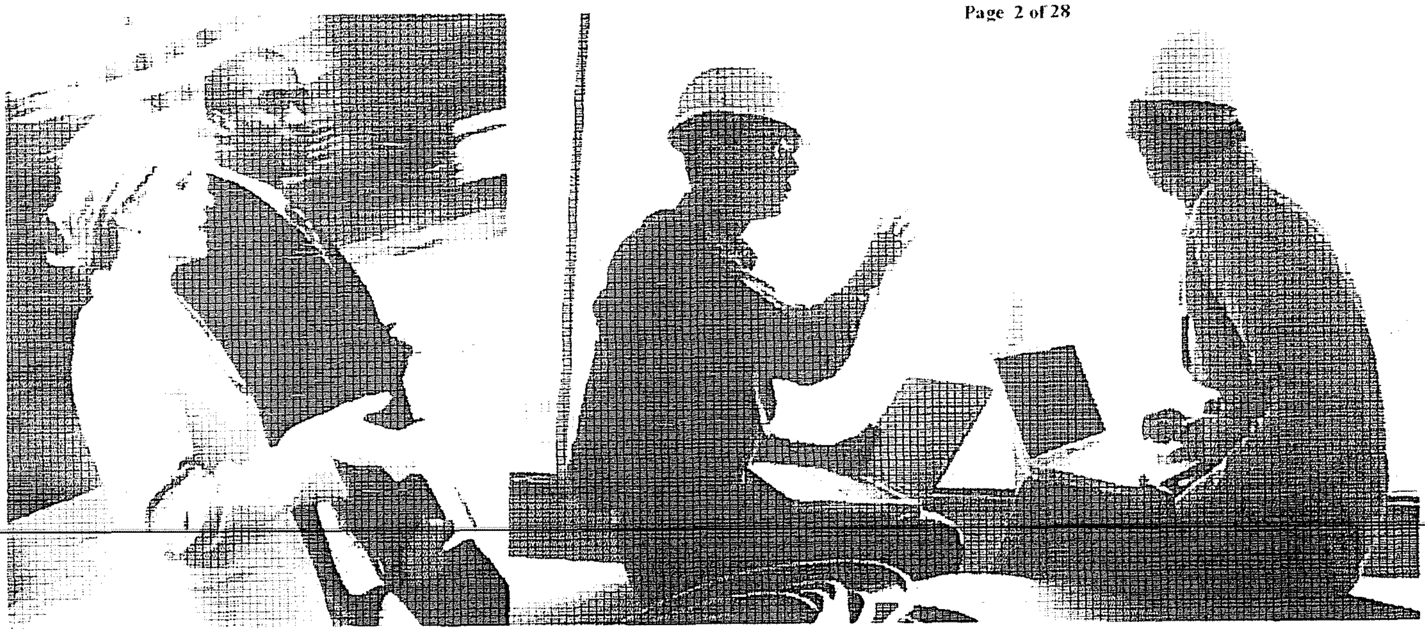
a. Please see Attachment STAFF-DR-01-12

b. Yes, Duke Energy has a code of ethics. Please see attachments Staff DR-01-12(b)(1) and (b)(2) (Duke)

PERSON RESPONSIBLE: William D. Johnson (a)
James E. Rogers (b)



Duke Energy [illegible]



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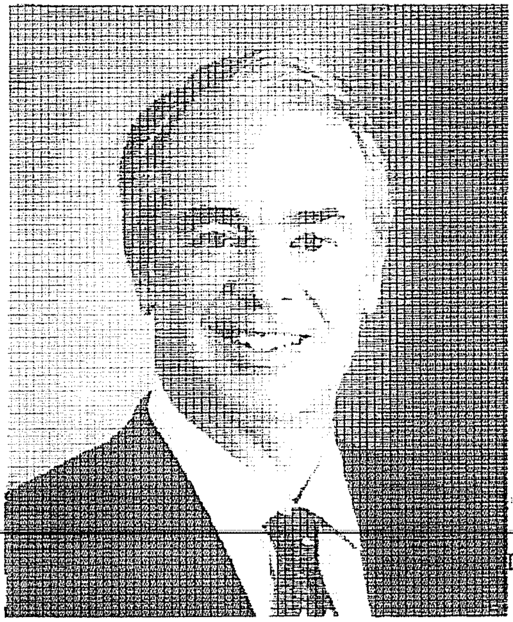

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Duke Energy Employees:

The Duke Energy Vision Statement addresses our mission, values and employee commitment to Duke Energy. One of our core values is integrity – We do the right thing. We honor our commitments. We admit when we're wrong.

Our Code of Business Ethics (CoBE) establishes standards of business conduct designed to help each of us conduct business with integrity. A lot of careful thought and consideration went into producing it, consistent with our company Vision Statement. Some sections may be more relevant to certain business areas than others. Regardless, all employees are responsible for being familiar with our CoBE so that you understand what you need to do when faced with an ethical dilemma.

You are encouraged to bring work-related concerns, including suspected violations, first to your supervisor. If you are uncomfortable in doing so, you are free to talk to another member of management, a Human Resources representative or someone in the Ethics and Compliance office. Additionally, the EthicsLine is a third-party resource you can use, and you can do so anonymously. The important thing is that you talk to someone.

Ethical behavior underpins our company values and helps ensure our long-term success. I urge you to use this CoBE as a guide. By doing so, you will have taken an important step in helping our company achieve its mission of making people's lives better by providing gas and electric services in a sustainable way while doing the right thing.

Jim Rogers

Jim Rogers
President and Chief Executive Officer

About the Code

Duke Energy's Code of Business Ethics describes ethical risks for employees, provides guidance to help recognize and deal with ethical issues and explains how to report unethical conduct and help foster a culture of integrity and passion for doing the right thing.

This Code applies to Duke Energy, its subsidiaries and its affiliates. Contractors, suppliers and vendors are expected to support effective compliance programs within their own organizations and adhere to the Supplier Code of Conduct.

Because we want our customers, investors, suppliers and other stakeholders to understand our commitment to manage our business with integrity, this Code appears on the Duke Energy Web site.

Some sections and topics may be more relevant to certain functions or departments than to others. However, since one instance of a person failing to act with integrity can damage the company's hard-earned reputation and compromise the public's trust, every Duke Energy employee is responsible for being familiar with the entire Code. The Code has been adopted by the company's board of directors and represents a commitment to promote an organizational culture that encourages ethical conduct and compliance with the law. A separate Code of Business Conduct and Ethics applies to Duke Energy's board of directors.

All Duke Energy employees should be aware that:

- This Code cannot anticipate every possible situation or cover every topic in detail. If a situation is unclear, employees should ask for guidance before taking action.
- Most of the topics covered in this Code are explained in greater detail in a company policy.
- From time to time, the company may establish training programs to address specific areas of risk.
- Reading this Code is not a substitute for completing training and complying with specific policies and procedures.
- This Code does not necessarily take into account all applicable legal requirements. More restrictive laws or requirements take precedence. Where applicable legal requirements conflict with the standards in this Code, employees should ask for guidance before taking any action.
- The existence and provisions of this Code do not by themselves create any contractual right to continued employment or modify the at-will employment relationship. However, to the extent a contractual right to continued employment exists by operation of applicable law, this Code is part of and is incorporated into any existing employment contract between Duke Energy and its employees.

Duke Energy employees may be asked periodically to certify compliance with this Code.

How Our Values Relate to the Code and Our Policies and Procedures

Duke Energy's vision sets forth the values and behaviors that apply to a wide variety of situations, while this Code is a statement of our principles and expectations that guide our ethical business conduct. Put another way, our mission and values point us in the right direction, and the Code guides our actions in specific situations. When the Code does not provide enough detail, the company's policies and procedures provide additional information.

Our Values – The Work Environment Duke Energy Commits to Provide

- Caring – We look out for each other. We strive to make the environment and communities around us better places to live.
- Integrity – We do the right thing. We honor our commitments. We admit when we're wrong.
- Openness – We're open to change and to new ideas from our co-workers, customers and other stakeholders. We explore ways to grow our business and make it better.
- Passion – We're passionate about what we do. We strive for excellence. We take personal accountability for our actions.
- Respect – We value diverse talents, perspectives and experiences. We treat others the way we want to be treated.
- Safety – We put safety first in all we do.

Reporting Ethics and Compliance Issues

Duke Energy employees have a responsibility to report violations of this Code, applicable laws, rules or regulations while performing work for the company. Employees are also expected to report any threat to human health, safety, the environment and communities around us or the company's assets. When needed, employees should seek clarification or guidance on ethical, safety, legal or policy issues or other business-related conduct.

To report a violation or seek guidance:

- Talk to your supervisor or your supervisor's manager, your human resources representative, or the ethics and compliance office.
- If you aren't comfortable with any of the reporting options above or if you feel more comfortable reporting anonymously, use the EthicsLine.

The Audit Committee of the board of directors reviews concerns regarding questionable accounting, internal financial controls (including internal accounting controls) and auditing matters reported to the ethics and compliance office or the EthicsLine, which allows anonymous reporting.

The EthicsLine

The EthicsLine is a worldwide reporting system staffed by an independent third party retained by Duke Energy through which employees can

- Report suspected unethical and criminal conduct or environmental health and safety concerns
- Ask questions to resolve ethical dilemmas within the organization without fear of retaliation
- Provide your name or choose to remain anonymous. Should you choose to identify yourself your identity will be kept confidential to the greatest possible extent.

You may discuss issues such as

- Employee misconduct
- Harassment in the workplace.
- Environmental, health or safety concerns.
- Fraud and corruption.
- Questionable accounting, internal controls or auditing matters.
- Conflicts of interest
- Misuse of company assets
- Regulatory violations.
- Any behavior you believe damages Duke Energy's reputation.

The service is available to you 24 hours a day seven days a week You may submit a report or inquiry via the Web (https://ethicsline.duke-energy.com/) or make a toll-free call to the following numbers anytime day or night:

United States	800-525-3783
Argentina	0800-444-8948
Brazil	0800-891-4140
El Salvador	0800-6203
Peru	0800-52-417

For countries not listed follow standard international calling procedures to call the United States toll-free number.

You can expect to

- Be asked to provide specific information regarding your questions or concerns to assist in ensuring that a thorough investigation can be conducted Translators are available.
- Be assigned a unique report number and personal identification number.
- Have Duke Energy initiate an investigation into your concern inquiry or question
- Have the opportunity to follow up with the EthicsLine to find out the status or outcome of your report

Additional Resources

For more information or to report a violation of the Code, you may contact Duke Energy's ethics and compliance office at ethicsoffice@duke-energy.com or contact the ethics and compliance office directly.

Retaliation Is Prohibited

Duke Energy values openness with its employees and respects the contributions of all employees Duke Energy will not retaliate against any employee who in good faith reports suspected unethical conduct violations of laws, rules, and regulations or company policies Duke Energy will not terminate employment demote, transfer to an undesirable assignment or otherwise retaliate against an employee for calling attention to suspected illegal or unethical acts including providing truthful information related to an investigation. However, Duke Energy reserves the right to discipline any employee who knowingly makes a false accusation or provides false information to the company or others.

Our Responsibilities as Duke Energy Employees

All Duke Energy employees have a responsibility to understand and follow this Code in their business dealings

Duke Energy employees must

- Follow the law, this Code and related policies. This responsibility cannot be delegated or assumed by the company or any supervisor.
- When unclear about a situation stop and ask for guidance before taking action
- Follow the reporting process if you become aware of a suspected violation. Use the EthicsLine if uncomfortable with other reporting options.
- Complete required training on the Code and periodically certify compliance with the Code

Additional Leadership Responsibilities

Duke Energy employees in a leadership position (supervisors managers and senior leaders) have additional responsibilities regarding this Code

Duke Energy leaders must

- Set the tone "at the top" by modeling exemplary ethical business conduct.
- Foster an environment of openness where employees feel comfortable bringing issues forward.
- Promptly respond to employee reports of violations or requests for guidance.
- Ensure employees complete required training.
- Answer employee questions about the Code and the company's values, policies and procedures.

Consequences of Violating the Standards in the Code

Failure to obey laws rules and regulations violates this Code and may expose both you and the company to criminal or civil prosecution Any violation of this Code or Duke Energy policies and procedures may result in corrective action up to and including employment termination The company may seek civil remedies from an employee and refer criminal misconduct to law enforcement agencies

Waivers of the Code

All employees are expected to follow the standards set forth in this Code. Any waiver from any part of the Code requires the approval of a group executive. For executive officers, a waiver requires the express approval of Duke Energy's board of directors and will be promptly disclosed to shareholders.

Ethics and Compliance Office

The role of the ethics and compliance office is to prevent and detect illegal or unethical conduct support Duke Energy's business values and reinforce ethical behavior through the Code and related education and training

Chief Ethics and Compliance Officer
Jeff G. Browning

Ethics
Allan J. Stewart

Compliance
Tom J. Wiles

Ethics and Compliance Program Responsibilities

As part of Duke Energy's commitment to conducting its business ethically we have created the Ethics and Compliance Program to help employees follow this Code of Business Ethics and to meet legal or regulatory requirements related to company business.

- The Audit Committee of the board of directors exercises reasonable oversight with respect to the implementation and effectiveness of the program
- The management of the company promotes an organizational culture that encourages ethical conduct and a commitment to compliance with all applicable laws rules and regulations

The Chief Ethics and Compliance Officer has overall responsibility for the program's effectiveness

Duke Energy demonstrates accountability in all accounting and financial reporting practices. All employees must accept responsibility for the accuracy of written records (including time reporting) and public statements so that we can maintain the trust of our stakeholders

Duke Energy's internal controls over financial reporting are consistent with the application of generally accepted accounting principles (GAAP). They help protect our financial accountability by:

- Assuring management's authorization of financial transactions
- Ensuring that financial transactions are properly recorded and posted
- Satisfying government and other regulatory requirements.
- Providing reasonable assurance that we are in compliance with GAAP and applicable tax laws

Responsibility in Reporting

Duke Energy's results of operations and financial condition are reported using GAAP and in compliance with applicable laws and regulations. Duke Energy prides itself on the transparency of its financial and non-financial reporting. To this end, we provide independent analysis and reporting of, among other things:

- Earnings for common stock shareholders
- Non-financial data (examples include data related to environmental responsibility, key strategic initiatives and community involvement)
- Current and future opportunities, threats, strategic plans and critical success factors.
- Revenue recognition.
- Market risks associated with commodity prices, credit exposure and interest rates
- Corporate and management commitment to our company's values.

It is critical to Duke Energy's reputation that information provided to management and the public is accurate, fair, complete, objective, understandable, timely and relevant. This applies to both financial and non-financial data, and includes information in public communications as well as in documents filed with regulators. Misstating information can carry serious criminal and civil fines and penalties for Duke Energy and personal criminal liability for employees.

Duke Energy applies the highest ethical standards in its financial and non-financial reporting and follows all applicable Securities and Exchange Commission, New York Stock Exchange, Sarbanes-Oxley, various regulatory commissions and other standards and rules regarding financial and non-financial reporting.

Employees should report immediately if they are pressured, threatened or aware of unethical behavior or fraudulent financial activities, including but not limited to:

- Use of questionable accounting techniques
- Management of earnings.
- Manipulation of results to meet targets for incentive plans

Our Responsibilities

Duke Energy employees are expected to be truthful and accurate in their accounting and time reporting practices. Financial professionals are expected to stay up-to-date with all financial reporting regulations related to their job functions, and to report financial statement items in a manner consistent with applicable laws and GAAP. All Duke Energy employees involved in public reporting or communications are expected to produce disclosures that are full, fair, accurate, timely and understandable.

Duke Energy employees must:

- Maintain books, accounts and records according to GAAP, using sufficient detail to reflect Duke Energy transactions accurately and fairly.
- Record transactions in a timely manner.
- Report if financial statements are believed to be misstated or manipulated

Duke Energy employees must not:

- Manipulate financial accounts, records or reports.
- Maintain off-the-book accounts to facilitate questionable or illegal payments.
- Take any action, or cause anyone else to take any action, to influence, coerce, manipulate or mislead auditors for the purpose of making financial statements misleading.

Related Information

- Summary of Internal Controls and Financial Controls Policy
- Regulation FD Policy

Duke Energy' uses the capabilities of its affiliates to complement and maximize the value of its core businesses.

Duke Energy and its affil ates are subject to regulation by various state regulatory commissions and the Federal Energy Regulatory Commission. These commissions have specific codes and requirements (Affiliate Restnctions) that prevent regulated franchised electnc and gas utilities from providing preferential treatment to their affiliates

The purpose of the Affiliate Restrictions is to prevent the regulated businesses from subsidizing the activities of their affiliates and to prevent the affiliates from gaining an unfair advantage because of their relationship with the regulated businesses

Affiliate Restnctions may include

- Physical and organizational separation of employees in regulated and non-regulated businesses.
- Restrictions on system access for non-regulated employees.
- Restrictions on sharing certain employee functions between regulated and non-regulated businesses
- Restrictions on sharing nonpublic transmission information, market information and other confidential operating information.
- Restnctions on disclosing customer information.
- Restrictions on transfers of power and non-power goods and services.
- Prohibitions on certain financial transactions.

Our Responsibilities

Duke Energy employees that work in or with the regulated/non-regulated businesses should understand all applicable regulations be aware of the potential implications and participate in associated training to ensure compliance with the Affiliate Restrictions.

Duke Energy's brand identity and intellectual property are among its most valuable assets. The loss of or injury to such assets could have a serious financial impact on the company. Violation of the intellectual property rights of others breaches our value of integrity, and may subject both the employee and Duke Energy to substantial liability, including criminal penalties

Employees demonstrate accountability by consistently and appropriately protecting the intellectual property rights of Duke Energy and honoring the intellectual property rights of third parties (e.g. copyrights trademarks, service marks and patents)

Employees must also be accurate and truthful in communicating information about Duke Energy products and services. This practice protects the Duke Energy brand and shows respect for our customers and shareholders

Our Responsibilities

Duke Energy employees are expected to protect the intellectual property rights of Duke Energy, including the Duke Energy name and logo, taglines, inventions, processes and innovations and to respect those of all third parties

Duke Energy employees must:

- Understand that any intellectual property we create in the performance of our job responsibilities belongs to Duke Energy and that innovations must be shared with the company to ensure adequate protection.
- Report any unauthorized use of Duke Energy's copyrights, patents, service marks or trademarks.
- Respect all intellectual property that Duke Energy has received from third parties under confidentiality or license agreements.
- Obtain permission to use a third party's trademark, service mark or other intellectual property.
- Use inventions patented by third parties only within the terms of a license agreement.
- Adhere to established brand standards when producing any materials, including advertising, publications, online materials and other items using the Duke Energy or subsidiary companies' names or logos

Duke Energy employees must not

- Make copies of copyright-protected materials until Duke Energy has obtained permission from the copyright holder or determined that limited copying is legally permitted.
- Copy or distribute software or related documentation without first ensuring that it is permitted by the licensing agreement.
- Use company letterhead, company e-mail or reference to our business address or title when expressing a personal view in a public forum.
- Use any device to record, tape, or take photographs in the workplace or at a work-related meeting unless prior authorization has been obtained

Q & A

Q: What is intellectual property?

A "Intellectual property" denotes the legal rights that may be secured in virtually any creation of the human mind or intellect (for example, an idea, invention, machine, device, process, program, software, drawings, blueprints, name, logo or slogan) or that may be legally protectible (such as a patent, copyright, trademark, service mark, and/or trade secret)

Q:What types of protections are available for intellectual property?

A The type of protection available depends on the type of intellectual property involved.

- *Copyrights* protect original and tangible works of authorship such as books, brochures, reports, proposals, advertisements and other literary works, as well as works of art, drawings, photographs, videos, maps, charts, musical works, audiotapes and software. A copyright prohibits unauthorized copying or downloading of these works
- *Patents* protect new and non-obvious inventions, such as machines, apparatus, devices, manufacturing components, chemical compositions, processes, methods and ornamental designs. A patent permits inventors and patent holders to exclude others from making, using or selling the same invention.
- *Trademarks and service marks* are words, phrases, symbols and designs which identify and distinguish the source of goods or services from those of others. Registration of a trademark or service mark restricts its use by others. In some circumstances, a trademark or service mark may be protected from such use without registration.
- *Trade secrets* are any information used by a business such as formulas, processes, devices and customer lists that have economic value because they are not generally known or easily discovered by observation or examination, and for which reasonable efforts have been made to maintain secrecy

Related Information

- Brand Policy
- Software License Management Policy
- Innovation, Patents and Intellectual Proprieties Policy
- Duke Energy Innovation Disclosure Form

Duke Energy maintains the highest level of integrity when dealing with government officials and members of the private sector. Giving anything of value to such individuals may raise questions about Duke Energy's integrity We demonstrate accountability by refusing to give gifts or make payments that are intended to inappropriately influence, or could appear to inappropriately influence, business decisions

Bribery laws prohibit companies from directly or indirectly promising, offering or making payment of money or anything of value to anyone (including a government official, an agent or employee of a political party, labor organization or business entity, or a political candidate) with the intent to induce favorable business treatment or to improperly affect business or government decisions

Decisions about gift giving must be carefully evaluated. In general, Duke Energy does not consider ordinary and reasonable business entertainment, or gifts of nominal value that are customary and legal in the local market, to be improper. We recognize that in certain cultures, gifts of a more substantial nature may be customary and expected

However, we also recognize that the giving of improper gifts or payments can undermine customer relationships, damage our reputation and result in legal penalties. Employees must refrain from giving gifts or making payments that are intended to *inappropriately* influence, or could appear to *inappropriately* influence, business decisions.

Note: These laws and regulations are complex and can vary from country to country, and even within a country (e.g., local versus national officials) and from state to state. This Code does not necessarily take into account all local legal requirements and employees should be aware that more restrictive local laws take precedence over this Code.

Our Responsibilities

Duke Energy employees are expected to be extremely careful when giving anything of value to third parties to avoid creating the impression that we are trying to inappropriately influence another person's business decision.

Compliance is mandatory and no employee will suffer demotion, penalty or other adverse employment consequence for refusing to pay bribes even if it may result in the company losing a business opportunity.

Duke Energy employees must

- Ensure that business entertainment provided to third parties is reasonable and customary
- Offer only gifts that are considered customary, reasonable, legal and of nominal value in the local market.
- Obtain prior approval from management before making a decision about whether or not to offer a gift that is of more than nominal value in the local market.
- Understand that it is generally not acceptable to give meals, gifts or gratuities to public officials or any federal state or local government employees. Obtain prior approval from management and Government Affairs

Duke Energy employees must not

- Conduct business through an agent, adviser or other intermediary using corrupt business practices to gain an unfair business advantage.
- Agree to provide any payments, contribute to charities, or make political contributions or other kickbacks in return for favorable treatment.
- Make a charitable or political contribution to an individual. All contributions must be given to the organization not an individual

Q & A

Q: How do I know whether a gift or payment is improper or not?

A: A gift or payment is improper if it is an inducement to do something that is dishonest, illegal or a breach of trust in the course of doing business. If you have questions as to whether a gift or payment could be considered improper, seek guidance before taking any action.

Related Information

- Business Courtesies Policy
- Compliance With the Foreign Corrupt Practices Act Policy

[illegible]

The giving and receiving of gifts or entertainment can be important and appropriate ways of building and maintaining proper business relationships. However, in order to maintain trust and integrity with our business partners, it is important to be prudent when accepting business courtesies.

[illegible]

Our Responsibilities

Duke Energy employees are expected to act with integrity when deciding whether to accept a business courtesy (i e., anything of value for which the recipient does not pay fair market value, including gifts, services and entertainment). Employees who are buyers, who influence buying, or who are involved in procurement transactions in any way (e g., determining specifications, evaluating bids, choosing vendors or suppliers) must be especially careful when deciding whether to accept a business courtesy.

Duke Energy employees must:

- Accept only personal gifts that would be considered common business courtesies and for which we would reasonably expect to give something similar in return in the normal course of business.
- Maintain a written list of business courtesies received that exceed the reporting threshold as defined in the Business Courtesies policy and review with supervision.
- Obtain written supervisory approval prior to accepting a business courtesy of significant value
- Report business courtesies received from representatives of foreign countries.

Duke Energy employees must not:

- Accept any business courtesy that might be intended to inappropriately influence, or appears to inappropriately influence, a business decision.
- Solicit gifts, favors, travel or entertainment from a business partner

Related Information

- Business Courtesies Policy
- Business Courtesy Log Template
- Compliance With the Foreign Corrupt Practices Act Policy

Duke Energy's contractual agreements and business transaction processes govem our business relationships and ensure that Duke Energy's interests are protected

The laws goveming contracts and business transactions are numerous and complex Therefore Duke Energy has in place certain policies and procedures to ensure that any business transaction entered into on behalf of Duke Energy has received an appropriate level of review and approval

In addition to contractual risks, participation in energy commodity markets exposes Duke Energy to credit and market risk Therefore, Duke Energy has established risk management policies and procedures to guide its personnel in mitigating the potential negative financial impacts posed by these transactions and to build a portfolio of positions that collectively meet Duke Energy's desired risk reward profile

Our Responsibilities

Duke Energy controls expenditures for goods and services through a purchasing process of requisitioning, procuring, administering contracts, receiving, approving invoices and disbursing funds Duke Energy also controls its market and credit risk exposures through risk management policies and procedures.

Duke Energy employees must:

- Know what types of contracts we are authorized to execute on behalf of the company, if any.
- If authorized to transact in the commodity market only execute transactions in authorized commodities, using approved instruments, and following the applicable procedures for maintaining compliance with the specific risk limits and hedge guidelines.
- Secure written approval of contracts after any necessary advice, counsel and review is obtained and evidenced.
- Ensure the supplier is apprised of expectations regarding their obligation to conduct business in an ethical manner.
- Document the purchasing process to support that appropriate steps were taken and provide an audit trail

Duke Energy employees must not.

- Separate a single transaction into multiple transactions to circumvent an individual's authorized approval limit.
- Divulge the quotation of one supplier to another supplier.

Related Information

- Approval of Business Transactions
- Delegation of Authority
- Purchasing Controls
- Commodity Risk Policy
- Credit Policy
- Loan Policy

Duke Energy maintains and uses confidential, proprietary and personal information ("sensitive information") in the course of doing business. This includes the company's sensitive information, as well as that of third parties, including customers and employees.

Duke Energy complies with laws protecting sensitive information from unlawful disclosure, as well as laws that require Duke Energy to detect prevent and respond to the use of stolen personal information to establish or maintain a customer or shareholder account Failure to comply with these laws and standards can cause harm to individuals, Duke Energy and third parties The impact could include financial and legal liabilities damages to the Duke Energy brand or adverse regulatory actions Failure to comply can also prohibit Duke Energy from conducting business within certain countries.

Our Responsibilities

Duke Energy employees are expected to protect Duke Energy and third-party sensitive information from unlawful disclosure or use, and to ensure that such information is handled properly throughout the organization.

Duke Energy employees must

- Maintain the confidentiality of sensitive information.
- Use sensitive information for business purposes only
- Use company procedures for labeling and handling sensitive information
- Share sensitive information only with appropriate parties both within and outside of Duke Energy.
- Use health information solely for the administration of health plans or to satisfy regulatory requirements
- Make sure that the use of sensitive information is consistent with our policies, affiliate restrictions, contractual obligations and applicable laws.
- Detect, prevent and respond to unauthorized use of personal information.

Duke Energy employees must not

- Disclose sensitive information to individuals (including other employees) who do not have a business need to know the information.
- Help a third party gain access to sensitive information without a legitimate business purpose.

Related Information

- Personal Information Privacy Policy
- Red Flags Identity Theft Policy

Q&A

Q. What is confidential or proprietary information?

A Confidential or proprietary information is any information that should not be shared with others without a legitimate business purpose. This includes but is not limited to

- Inventions
- Operational information
- Strategic information about current and/or future business plans
- Supplier's pricing and specifications
- Research
- Records, such as financial, customer or personnel records
- Information designated as confidential or proprietary.

Q:What type of information would be considered personal information?

A: Any information collected by Duke Energy or its subsidiaries and affiliates that uniquely identifies a person or from which a person can be reasonably identified, and the collection, use or disclosure of which is governed by applicable law or regulation. Personal information of an individual, entity or government agency includes where applicable, but is not limited to

a. Protected health information.

b. Social security number or national ID (or equivalent).

c. Consumer report information.

d An entity's or agency's name, or person's first name or first initial and last name in combination with
  - social security or employer taxpayer ID numbers
  - drivers license, state identification card or passport numbers
  - banking information
  - credit card numbers
  - PIN codes
  - electronic ID numbers
  - private electronic mail names or addresses
  - private phone number
  - internet account numbers
  - identification names
  - digital signatures
  - any information that can be used to access a person's financial resources
  - biometric data
  - fingerprints
  - passwords
  - parent's legal surname prior to marriage or

e Any other information protected by Duke Energy's Policies, Standards, Procedures or applicable laws.

Duke Energy depends on the good judgment and integnty of its employees to act in Duke Energy's best interests. Sometimes. however, there are situations where an employee might be tempted to act otherwise or find oneself in a situation where a conflict of interest may arise

A conflict of interest exists any time an employee faces a choice between what is in his or her personal interest (financial or otherwise) and the interests of Duke Energy. When a conflict of interest arises, others may question our integrity. Therefore, employees are accountable for acting in Duke Energy's best interests and carefully avoiding even the appearance of impropriety. If an employee is in a position where their objectivity may be questioned because of individual interests or family or personal relationships, notify supervision immediately.

Conflicts of interest may arise when

- An employee or someone with a close relationship to the employee has an interest in an entity with which Duke Energy does business
- An employee or someone with a close relationship to an employee receives improper personal benefits as a result of their position at Duke Energy.
- Other employment (including self-employment) or serving as an officer, director, partner or consultant of another organization interferes with an employee's ability to act in the best interests of Duke Energy, requires the employee to use or disclose sensitive information about Duke Energy is conducted during or conflicts with an employee's normal work times, or creates the appearance of impropriety.
- An employee or someone with a close relationship to an employee receives a loan or other extension of credit or credit support (such as a guaranty) from Duke Energy. Duke Energy is prohibited by law from extending or arranging for the extension of personal loans to executive officers

Our Responsibilities

Duke Energy employees owe a duty of loyalty to the company and are expected to act in Duke Energy's best interests and avoid conflicts of interest and/or the appearance of a conflict of interest.

Duke Energy employees must:

- Be able to identify potential conflicts of interest when they arise.
- Make certain that any second jobs, financial interests or management interests in another entity do not cause a conflict of interest or have a negative impact on the confidence the public has in Duke Energy
- Get approval from a group executive when an entity in which an employee or someone with a close relationship to the employee owns or acquires an interest that is greater than 5 percent seeks to do business with Duke Energy, and:
  - The entity makes sales of goods or services to Duke Energy exceeding $1 000 annually or
  - The employee helps make Duke Energy purchasing decisions for those goods or services, or
  - The employee has a role in making sure the entity is paid for the goods and services it provides
- Get approval from a group executive to:
  - Perform work or services which are similar to current job responsibilities for any person or organization that competes with or seeks to do business with Duke Energy
  - Take a position on the board of directors of a for-profit entity that has regular business dealings with Duke Energy other than routine sales of gas and electric services. Prior to taking any such board position, employees are required to consult with their supervisor before seeking approval from a group executive who shall notify the Chief Legal Officer
- Always keep Duke Energy's interests uppermost even if the above criteria do not apply to a situation.

Duke Energy employees must not

- Take for personal gain an opportunity available to Duke Energy that is discovered using company assets, information or position.
- Personally benefit from business decisions, selections or authorizations the employee makes in the performance of their job
- Cause Duke Energy (or its affiliates) to enter into, or direct others to cause Duke Energy (or its affiliates) to enter into, energy commodity contracts that benefit an employee, an employee's family members, friends, or someone with a close relationship to an employee with whom there is a personal business interest.
- Participate in the selection process or oversee the work of a company in which an employee or someone with a close relationship to the employee has an interest.
- Interface with Duke Energy's contractors, vendors, suppliers, customers or others in a manner which creates even the appearance of a conflict of interest.

Q & A

Q: I've been asked to sit on the board of directors of a non-profit organization. Do I need my supervisor's approval to do this?

A No, but you should still make your supervisor aware of the situation. Also, you should excuse yourself from any discussions or votes on any matter involving Duke Energy, to avoid the appearance of improper behavior or a conflict of interest.

Q: I am considering a temporary second job for extra money during the holiday season. Is this okay?

A Yes, but remember your first responsibility is to our company. You must be able to fulfill all your responsibilities including overtime if that is a requirement. The job must not be with a competitor or vendor/supplier

Q: An employee's spouse owns a company which would like to bid on a contract exceeding $1,000 annually. The employee discloses the ownership to their supervisor. Is this a conflict of interest?

A No. The employee was honest about their relationship and removed themselves from the purchasing process. If the company owned by the employee's spouse is chosen as a vendor, the employee cannot be involved in supervising the work or processing payments for the work.

One of our values is canng – We look out for each other We strive to make the environment and communities around us better places to live. Protecting and responsibly managing natural resources and the environment is critical to the quality of life in the communities we serve, and is central to Duke Energy's long-term business success The health and safety of employees, contractors, customers and communities is the responsibility of all Duke Energy employees. We put safety first in all we do

Duke Energy accepts responsibility in these areas by systematically managing nsks setting goals measuring and reporting performance and conducting assessments to evaluate ard improve

- Compliance with environmental health and safety (EHS) laws regulations and other regulatory obligationss.
- Systematic implementation of Duke Energy EHS policies and standards.

Our Responsibilities

We take our role as a responsible corporate citizen seriously, working to balance our business goals with the environmental, social and economic needs of our communities. Duke Energy's commitment is long-standing. We realize that environmental stewardship and corporate responsibility cannot stand alone; these ideals must permeate every area of our operations.

Duke Energy employees are expected to abide by all company EHS policies and procedures and to improve operations, with a focus on preventing environmental, health and safety incidents.

Duke Energy employees must:

- Comply with all applicable environmental health and safety laws regulations and other requirements such as those dealing with
  - *Employee and public safety and health*
  - Contractor EHS management
  - Work conditions
  - Pollution control and management
  - Waste management
  - Infrastructure safety
- **Demonstrate a personal commitment to protect the environment and to continuous safety improvement.**
- **Promptly report all environmental, health and safety incidents, including significant near misses**
- **Use natural resources and energy efficiently to reduce resource consumption, waste, discharges and emissions.**
- **Report to work fit to perform our duties and be free of the effects of alcohol or drugs at work.**

Duke Energy employees must not

- Threaten or injure other people
- Possess or use a weapon in any manner while on Duke Energy premises or while engaged in Duke Energy business unless authorized to do so.
- Use possess sell or transfer illegal drugs illegal narcotics or alcohol on the job

Q & A

Q: How do I prepare for a workplace emergency?

A: A workplace emergency may be an injury accident, a severe illness a chemical spill a fire flood or storm an assault or other incident.

- Find out whom to contact to get help in the event of an emergency. Emergency numbers should be posted at each telephone. Local personnel may be appointed and trained to respond to emergencies.
- Know the address of your work location in case you have to call for emergency help.
- Know the location of emergency equipment including fire extinguishers break-glass alarms, first aid kits, safety showers, eye wash stations, chemical spill control materials and other equipment
- Know the evacuation route from your work area. Be aware of at least two exits and know where you are supposed to assemble with co-workers outside the building.

Related Information

- **Environmental, Health & Safety Policy**
- **Alcohol and Drug-Free Workplace Policy**
- **General Workplace Security Policy**

Duke Energy values diverse talents, perspectives and experiences. The dignity of each person is respected, and everyone's contributions are recognized. We expect Duke Energy employees to act with mutual respect and cooperation toward one another. We do not tolerate discrimination, harassment or retaliation in the workplace.

We comply with laws concerning discrimination and equal opportunity that specifically prohibit discrimination on the basis of certain differences. We will recruit select, train and compensate based on merit, experience and other work-related criteria.

Our Responsibilities

Duke Energy employees must

- Treat others with respect on the job
- Comply with equal employment opportunity laws, including those related to discrimination, harassment and retaliation.

Duke Energy employees must not

- Use any differences protected by law as a factor in hiring, corrective action, firing or promotion decisions.
- Use any differences protected by law when determining terms or conditions of employment such as compensation, work assignments, employee development opportunities, vacation or overtime
- Retaliate against a person who makes a complaint of discrimination or harassment in good faith, reports suspected unethical conduct violations of laws, regulations or company policies, or participates in an investigation.

Related Information

- Affirmative Action and Equal Employment Opportunity Policy
- Diversity and Inclusion Policy
- Harassment Policy
- Open Door Policy

Q & A

Q: What are the differences that are protected by law or Duke Energy policy?

A: Differences protected by law or Duke Energy policy include

- Race
- Gender
- Religion
- Color
- National origin
- Ethnicity
- Citizenship
- Age
- Disability
- Sexual orientation
- Veteran status
- Marital status

Q: We posted a job for an entry level position expecting to hire a recent graduate and were surprised when several older workers applied. Is it okay to hire a younger person, the way we planned?

A: It is against the law to discriminate on the basis of an individual's age. Interview all the qualified candidates, and hire the best person for the job regardless of their age. There must be a valid reason, unrelated to age, for all employment decisions.

Duke Energy succeeds in the marketplace by offering competitively priced, quality products and services. As a company, we support full and fair competition by complying with antitrust laws prohibiting activities that reduce competition and restrict trade.

Our Responsibilities

All Duke Energy employees must deal fairly with the company's customers, suppliers and competitors. Employees are expected to act with integrity by maintaining Duke Energy's independent judgment in the pricing, marketing, purchasing and selling of all products and services.

Duke Energy employees must:

- Understand how fair competition laws apply to us and our business, and learn how to avoid engaging in potentially unlawful behavior.
- Leave any meeting or informal gathering immediately and report any discussions with competitors that could be considered anti-competitive.

Duke Energy employees must not:

- Improperly attempt to prevent an entity from competing with Duke Energy or from entering the markets in which Duke Energy participates.
- Suggest to suppliers that our purchasing decisions depend on their use of Duke Energy's goods or services, or that failing to do business with a Duke Energy subsidiary or affiliate could jeopardize business with another Duke Energy entity.
- Make inaccurate or misleading statements about competitors, suppliers, customers or their offerings.

Q & A

Q: What types of behavior could be considered anti-competitive and a violation of antitrust laws?

A: The following behavior could be considered anti-competitive and a violation of antitrust laws:

- Discussions or agreements with a competitor regarding pricing, territories, market share or intent to bid (or not bid) for particular business.
- Providing inconsistent information about a request for quotation/proposal to competing bidders.
- Entering into an exclusive dealing arrangement or understanding in which you agree to work only with certain suppliers or distributors in a particular market where Duke Energy has market power.
- Taking advantage of market power to eliminate or threaten a competitor or potential competitor in that or another market.
- Suggesting that a product or commodity must be resold at or within a particular price or range of prices.
- Participating in actions by any trade association or other industry group regarding membership restrictions, sharing information (including benchmarking) or desired governmental actions. Participating in such actions could be anti-competitive and should be performed under the proper guidelines.

[illegible]

Fraud, or the potential of fraud, compromises the integrity of our financial reporting system and the safety of our assets, both physical and intellectual.

Fraud is the act of intentionally misrepresenting or concealing facts that cause another party to act or not act in reliance on the misrepresentation or concealment. Fraud may be committed by one person or by two or more (collusion) and may be committed by internal and/or external parties (vendors, customers, etc.)

Our Responsibilities

All employees must understand what constitutes fraud and refrain from engaging in fraudulent activity including collusive fraud that bypasses existing controls. Moreover, employees are responsible for reporting all instances of potential fraud.

Duke Energy employees must

- Understand what constitutes fraud and refrain from engaging in fraudulent activity
- Report all instances of potential fraud

Duke Energy employees must not.

- Engage in fraudulent activity including collusive fraud which bypasses existing controls

Related Information

- **Fraud Policy**

Q & A

Q: What are some examples of fraud?

A: Various types of potential fraud include:

- Fraudulent financial reporting
  - Intentional reporting of false expense or revenue data which improperly states amounts reported on publicly filed financial statements.
  - Intentional misstatement of price data reported for price index purposes.
  - Intentional misapplication of accounting principles relating to amounts, classification, accrual, manner of presentation, or disclosure.
  - Intentional misstatement of accounting estimates and judgments
- Misappropriation of assets
  - Submitting an inaccurate expense report for personal expenses.
  - Excessive personal use of company supplies or assets.
  - Fraudulent financial reporting (see above) for purposes of increasing personal gain through incentive measure calculations
  - Improper time reporting with intent to defraud.
- Corruption and other fraud related malfeasance
  - Overriding existing controls, rendering the controls ineffective
  - Falsifying personal credentials
  - Falsifying documents or certifications required by company procedures and/or regulatory authorities, including providing your signature as a quality assurance check without completing the inspection process
  - Tampering with documents
  - Participating in illegal acts in collusion with others – in particular concealing the transfer of funds involved in the illegal actions (money laundering)

Duke Energy is committed to maintaining a positive work environment where all employees are treated with dignity and respect. Harassment of any kind in the workplace is not tolerated

We respect the dignity of every person and honor our differences. It is important that employees speak up if they experience or witness harassment on the job or at work-related events

Harassment generally means offensive conduct that is severe and pervasive and singles out an employee to the detriment or objection of that employee because of a difference protected by law or by Duke Energy policy such as race, gender color sexual orientation religion national origin, ethnicity citizenship age marital status disability or veteran status Harassment covers a wide range of conduct, from direct requests of a sexual nature to situations where offensive behavior (e.g., insults offensive jokes or slurs, offensive material in the workplace) to verbal or non-verbal threats, abuse or ridicule, assault or blocking of normal movement results in a hostile work environment

Our Responsibilities

Duke Energy employees are expected to do their part to ensure a safe and secure workplace in which employees can perform their duties without fear of harassment.

Duke Energy employees must

- Treat others with respect
- Report all incidents of harassment

Duke Energy employees must not

- Harass anyone.
- Threaten insult abuse or ridicule others
- Create an intimidating hostile or offensive work environment

Duke Energy will promptly and thoroughly investigate all reports of harassment and will preserve the confidentiality of the investigation to the greatest possible extent. Duke Energy will take immediate and appropriate action, up to and including termination of employment, if harassment is determined to have occurred

Q & A

Q:What is considered offensive material in the workplace?

A Possession of any text, communications software images sounds data or other information that facilitates improper conduct (such as involvement with illegal drugs illegal materials or illegal weapons) or that is threatening unlawful abusive harassing defamatory, libelous deceptive fraudulent or invasive of another's privacy, or that contains explicit or graphic descriptions or accounts of sexual acts.

Related Information

- Harassment Policy
- Open Door Policy

Duke Energy's information systems support internal and external business activities. Because these resources connect us with the outside world, there is a risk of attack or exploitation. Duke Energy is committed to protecting these resources from such intrusions.

All Duke Energy employees are responsible for information security. We must be aware of information security processes and policies, and take steps to reduce the risk of security breaches.

Our Responsibilities

Duke Energy expects employees to manage and use information and information systems to support company business objectives. Electronic communications, including e-mail, instant messaging and Internet activity generated on or received by Duke Energy systems are considered Duke Energy property and are subject to random monitoring for misuse or abuse, except where prohibited by law.

Duke Energy employees must:

- Follow all policies and procedures related to the protection of information and information resources including network access and appropriate use of the Internet and e-mail.
- Contact the IT Help Desk to report any unusual activities or inappropriate risk regarding our information systems and resources.
- Be familiar with the Records Management Policy, Records Management Standard and the applicable record retention schedule.
- Properly protect information exchange outside of Duke Energy.
- Access information only in support of specific business needs.

Duke Energy employees must not:

- Let personal use of information system technologies interfere with Duke Energy business activities or incur unnecessary cost.
- Let business or non-business use of electronic communications, including cell phones violate Duke Energy policies or legal requirements.
- Transmit personal information without a legitimate business purpose. If transmitted externally, the information must be encrypted.

[illegible]

Related Information

- IT Security Policy
- Records Management Policy
- Records Management Standard
- Personal Information Privacy Policy

Duke Energy's success in the marketplace requires that we maintain the trust and confidence of the investment community. Duke Energy employees must act with integrity when trading public securities, adhering to all applicable laws.

Insider trading may occur when an employee:

- Knows material nonpublic information about Duke Energy or any company with whom Duke Energy has a business relationship
- Buys, sells, or otherwise trades a company's securities, such as stocks, bonds or options, while in possession of that information or tell others about it before it is made public

"Material nonpublic information" is information that would affect a reasonable investor's decision on whether or not to invest in a company's securities. Examples include, but are not limited to:

- Unpublished financial results.
- News of a pending or proposed company transaction.
- Significant changes in corporate objectives.
- News of a significant sale of assets
- Changes in dividend policies.
- Financial liquidity problems.

Circumstances suggesting the possibility of insider trading may result in an investigation by a stock exchange or by governmental authorities. Such an investigation could damage Duke Energy's brand and reputation and result in liabilities or penalties, including criminal charges and/or fines against the employee.

Our Responsibilities

Duke Energy employees are expected to be very careful when trading securities, even the Duke Energy securities in our retirement accounts, to make sure that trades are not made while in possession of material nonpublic information.

Duke Energy employees must:

- Direct questions related to insider trading laws to the company's law department.
- Allow approximately two full trading days after any material nonpublic information of which we are aware has been made available to the public before trading Duke Energy securities. This includes transfers into and out of the Duke Energy stock fund in our savings plans, and changes in patterns involving purchases of Duke Energy securities within the plans. (Regularly scheduled purchases of Duke Energy securities within plans are not prohibited.)

Duke Energy employees must not:

- Trade the securities of Duke Energy or those of its suppliers, customers or other companies with whom Duke Energy has a business relationship while in possession of material nonpublic information.
- Trade in options, warrants, "puts" and "calls" or similar instruments on Duke Energy stock or sell Duke Energy stock "short."
- Give material nonpublic information to anyone not authorized to have that information, including other Duke Energy employees. If that information is subsequently used by the person to trade on securities, it is considered illegal "tipping" and a violation of insider trading laws.

Q & A

Q: I am a financial professional and often talk about business with my spouse. That's not a problem, is it? I only occasionally reveal nonpublic information and my spouse knows not to tell anyone else.

A: This is a problem that could be costly for both you and the company. If your spouse were ever to use material nonpublic information given by you to buy or sell securities, both of you could be prosecuted for illegal insider trading. You should not give any nonpublic information to your spouse or to others.

Related Information

- **Insider Trading Policy**

Duke Energy maintains the highest standards of integrity when conducting business in the United States and abroad We build relationships based on trust and respect with our customers, suppliers and community stakeholders

Duke Energy's success in global business transactions depends on our compliance with country-specific constraints and conditions and sensitivity to local customs. The laws, regulations and conventions governing our international business relationships vary from country to country it is Duke Energy's policy to comply not only with the letter of these laws but also with their spirit. Duke Energy is also responsible for following certain U S. laws when doing business outside of the United States Since violations can result in substantial fines imprisonment and severe restrictions on the company's ability to do business, it is essential that Duke Energy employees follow them. If local law conflicts with applicable U S law, or if in doubt for any reason, ask for guidance before taking any action.

Our Responsibilities

Duke Energy employees who conduct business outside of the United States are expected to be familiar with the laws and regulations of each country in which they conduct business, as well as the following laws and regulations

- The anti-bribery provisions of the Foreign Corrupt Practices Act (FCPA) and the anti-bribery legislation of the Organization for Economic Co-operation and Development (OECD) Convention
- U.S. anti-boycott laws
- U S Treasury embargo sanctions
- U.S export control restrictions

Duke Energy employees must

- Get the training needed to understand laws and regulations governing international transactions
- Seek advice in advance from the law department regarding whether a payment is legal and legitimate
- Record all payments and transactions accurately and fairly
- Report any FCPA and OECD Convention concerns to the law department
- Report all requests for boycott support or boycott-related information to the law department
- Obtain technical and legal guidance about export control restrictions when exporting sensitive goods or technology
- Seek advice regarding any sensitive political issues in countries where Duke Energy is doing or considering doing business

Duke Energy employees must not

- Make payments or give business courtesies directly or indirectly (such as payments to agents sales representatives or other third parties) if there is reason to believe they will be used illegally. This includes corporate and personal funds as well as charitable and political contributions intended to gain an improper business advantage
- Do business with others who do not accept our values and who may harm our reputation.
- Violate anti-boycott laws governmental embargoes or export control restrictions or prohibitions

Summaries

The following are summaries of the key U S laws and regulations governing international business Because most are based on U S foreign policy and national security goals they are subject to change it is your responsibility to stay updated on changes in these laws

FCPA and the OECD Convention

The FCPA and OECD Convention legislation make it a crime to promise, offer or give anything of value to a government official or a political party or candidate in order to obtain or retain business or gain any improper advantage. The FCPA covers all countries in which Duke Energy currently has operations, and the laws implementing the OECD Convention have been ratified by many of those countries

Anti-boycott Laws

Anti-boycott laws make it illegal to cooperate in any boycotts between foreign countries if the boycotts are not sanctioned by U S law

Treasury Embargo Sanctions

The Treasury Department's Office of Foreign Assets Control prohibits U S companies and their foreign subsidiaries from doing business with certain countries, agencies and individuals Regulations vary depending on the country and the type of transaction

Export Control Restrictions

To prevent sensitive goods, technology and software from falling into the wrong hands, exports of items sensitive to certain countries and individuals may be restricted or prohibited These restrictions and prohibitions may also apply to transfers between Duke Energy and its foreign subsidiaries

Related Information

- Compliance With the Foreign Corrupt Practices Act Policy

Duke Energy is subject to various laws, rules and regulations. Violations of these rules expose Duke Energy and its employees to potential monetary penalties, loss of the ability to execute in the marketplace, reputation damage, loss of shareholder value, and civil and criminal charges.

Our Responsibilities

Duke Energy employees are required to comply with the letter and intent of all applicable laws, rules and regulations, and to act with integrity to produce results that make the company profitable and respected.

Duke Energy employees must:

- Be aware of the laws, rules and regulations that affect your daily job responsibilities and understand how they apply to your work.
- Actively participate in training on applicable laws, rules and regulations.
- Ask questions and gain clarification on the impact of applicable rules prior to acting.

Additional leadership responsibilities:

- Research questions and issues on applicable laws and regulations and provide guidance to employees.
- Educate employees on the meaning of the applicable laws and regulations and their effect on work activities.
- Monitor work activities for on-going compliance.
- Report any potential acts of non-compliance.
- Review the organization's compliance risk and the effectiveness of procedures in place to mitigate that risk.
- Provide the proper incentives to ensure on-going compliance.

Related Information

- EthicsLine

Duke Energy strongly supports individual participation in the political process in our communities -ncluding involvement with political parties candidates or issues, and participation by eligible employees in Duke Energy's political action committee DUKEPAC Such activities demonstrate that we care about the communities in which we live and work.

However because laws and regulations governing political activities and contributions are complex and diverse employees must not undertake such act vitles on behalf of Duke Energy or on company time without the prior approval of Duke Energy's Government Affairs department

As a company Duke Energy actively supports positions important to our business. From time to time, the company provides information on its political activities and shares its viewpoint with employees customers and the general public. We respect anyone's right to disagree with the official company positions regarding political preferences.

Our Responsibilities

Duke Energy employees are expected to follow these guidelines to avoid violating laws and regulations concerning political activities and contributions. These guidelines are applied consistently across the company for those involved in the political arena. Moreover, these guidelines are intended to protect both the company and the candidate from exposure to potential violations of campaign finance lobbying and ethics laws.

Duke Energy employees must

- Clearly identify individual, personal political views as such and not those of Duke Energy
- Get approval from Government Affairs before performing political activities on company time or using company resources, including copy machines computers telephones and other forms of company property.
- Notify supervision when making plans to campaign for or serve in public office.
- Avoid conflicts of interest when serving in public office by excusing ourselves from any political matters involving Duke Energy

Duke Energy employees must not

- Provide any gifts meals travel entertainment or event tickets to public officials or their staff or sponsor an event where a public official is the speaker or honoree unless approved by the Government Affairs representative in the employee s state as rules and regulations vary from state to state
- Contact government personnel for the purpose of influencing legislation regulation or decisions without involving Government Affairs

Related Information

- **Honest Leadership and Open Government Act of 2007 Guidance ('HLOGA')**

Unauthonzed and inappropriate releases of information to the public can result in violation of full disclosure laws, stakeholder confusion and damage to Duke Energy's competitive position, brand and reputation. Only authorized spokespersons should provide information about Duke Energy.

There are also very specific rules regarding the reporting of information to government agencies or elected officials. *Only authonzed spokespersons* should handle requests for information from public agencies or individuals. However all employees are expected to cooperate fully and truthfully with regulatory and governmental investigations and proceedings and not obstruct other employees from doing so.

Our Responsibilities

Duke Energy employees must

- Forward requests for information to the appropriate department, if communicating outside of Duke Energy is not part of an employee's assigned responsibilities.
- Inform supervision immediately about any request from a government agency or individual that is outside the scope of routine job responsibilities.
- Report any violations of law or this Code that may warrant disclosure to appropriate government authonties.
- If personal cooperation has been requested (such as by subpoena), cooperate fully and truthfully with regulatory and governmental investigations. Failure to cooperate will result in corrective action up to and including employment termination.

In addition Duke Energy employees planning to provide information about Duke Energy to public audiences through speeches presentations, interviews panel discussions articles papers, surveys, public internet forums such as message boards and blogs, and the like must

- Obtain management approval before proceeding with public communications that claim or appear to be on behalf of Duke Energy.
- Provide adequate advance notice to the appropriate communications staff when planning to speak as a representative of Duke Energy in order to receive proper advice from them regarding the opportunity. Included are situations where employees are speaking on behalf of an industry task-force or committee.
- Refrain from offering opinions or answering questions beyond area of expertise

Duke Energy employees must not

- Disclose personal or confidential information regarding current employees, former employees or customers
- Make disparaging comments about Duke Energy current or former Duke Energy employees or customers
- Knowingly willfully, or intentionally, disclose to any person not employed by the company any confidential business strategy or commodity position, or important nonpublic information such as earnings warnings to the financial community before disclosing the information to the general public, except when compelled by an outside government or oversight body, or with approval from a group executive

Source	Refer to
Financial community	Investor Relations
News or trade media	Corporate Communications
Regulatory agencies	Law Department
Elected officials	Government Affairs
Person seeking information about a current or former Duke Energy employee	Human Resources

Related Information

- **Information Requests and Government Investigations Policy**
- **Legal Process Policy**
- **Regulation FD Policy**

Duke Energy creates, delivers and exchanges information in many ways. We must demonstrate accountability by handling records properly.

Employees manage a variety of business records in many forms, including but not limited to:

- Recorded conversations
- Presentations
- Audio conferences
- E-mails
- Paper documents
- Engineering drawings
- Videos
- Databases
- Instant Messaging

Information integrity, privacy, security and standards setting require on-going attention.

Q & A

Q: What is the definition of a "record"?

A: A record is recorded information that has ongoing business, legal, operational, compliance or historical value, in paper or electronic form (including microfilm, microfiche, photograph, map, computer disk or tape, software, video, audio, or other recorded information) originated or received by the company, that the company intends to retain as evidence of its business operations.

Duke Energy's integrity can be seriously questioned if records are not managed appropriately, retained for the appropriate length of time or are not disposed of properly. Failure to appropriately manage records places us at risk for possible penalties, fines and other sanctions. It could also put the company at a serious disadvantage in any litigation. We must demonstrate accountability by handling records properly.

Our Responsibilities

Duke Energy employees must:

- Dispose of records not subject to a hold when they have fulfilled their business purposes and have met their retention period.

Duke Energy employees must not:

- Knowingly destroy, alter or falsify records that are on hold or have not met their retention periods.

Related Information

- **Records Management Policy**

Duke Energy invests in and uses certain assets to advance its business strategy and objectives These assets include, but are not limited to computers and other office resources, supplies, equipment, tools, machinery and work time

Limited personal use of computers and other office resources on company time is allowed. However because excessive personal use can be costly and impact profitability employees are expected to use good judgment.

The personal use of equipment, tools and machinery is not allowed except where specific departmental procedures allow for such use

The company does not intend to intrude on an employee's privacy However, the company does reserve the right to search employees their vehicle or other personal property and any company property assigned to employees during the workday or while on company or customer property to enforce any company policies. as permitted by law.

Our Responsibilities

Duke Energy employees are expected to use Duke Energy assets and resources responsibly and for legitimate business purposes.

Duke Energy employees must:

- Talk to a supervisor when it is unclear if the use of a company asset in a given situation is appropriate or before removing any company property for personal use
- Cooperate during any inspections or investigations

Duke Energy employees must not

- Reproduce protected materials for personal use
- Make personal use of any Duke Energy asset (including computers and other office resources equipment. tools and machinery) that creates any additional costs for Duke Energy. interferes with work duties or violates any company policies
- Allow company property to be used for illegal activities.
- Use company property or information for personal gain

Related Information

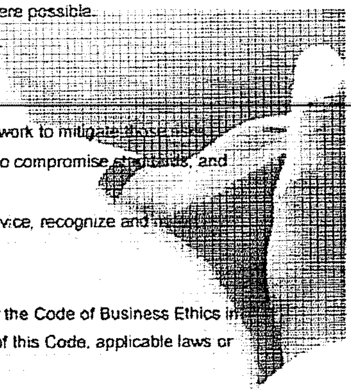
- **Property. Equipment and Inventory Policy**
- **Information Technology Asset Management Policy**

A Message from Jeff Browning, Chief Ethics and Compliance Officer

As the company s chief ethics and compliance officer I direct the corporate ethics and compliance program that provides oversight tracking and management of compliance with laws regulations and our Code of Business Ethics

The goals for the ethics and compliance group are to

- Promote a culture that encourages ethical conduct and a commitment to compliance with applicable rules
- Prevent detect and act on unethical and non-compliant activity
- Streamline ethics and compliance processes and automate tasks where possible.
- Track and report ethics and compliance results across the enterprise.



As a member of management, it is my responsibility to:

- Understand situations that expose our employees to violations, then work to mitigate those risks
- Recognize the pressure placed on employees from outside sources to compromise standards, and intervene when possible.
- Create an open environment where employees are willing to seek advice, recognize and report misconduct and believe the resolution process is fair.

All Duke Energy employees have a responsibility to understand and follow the Code of Business Ethics in their business dealings. We also have a responsibility to report violations of this Code, applicable laws or governmental regulations while performing work for the company.

Employees are also expected to report any threat to human health, safety, the environment or the company's assets When needed employees should seek clarification or guidance on ethical, safety, legal or policy issues or other business-related conduct.

To report a violation or seek guidance

- Talk to your supervisor or your manager, your human resources representative or the ethics and compliance office

If you aren t comfortable with any of the reporting options above or if you feel more comfortable reporting anonymously use the EthicsLine

Duke Energy values clear and open communications, and respects the contributions of all employees Duke Energy will not retaliate against any employee who in good faith reports suspected unethical conduct violations of laws, regulations or company policies. Duke Energy will not terminate employment demote transfer to an undesirable assignment or otherwise discriminate against an employee for calling attention to suspected illegal or unethical acts, including providing information related to an investigation.

People in management aren t the only ones in a position to ensure "we do the right thing." Every employee should be an ethical role model I encourage you to be part of the culture that makes our company a place where our ethics and values are demonstrated and supported with every action

I look forward to working along with you in supporting our company's mission and values

Duke Energy

Code of Business Ethics

[illegible]

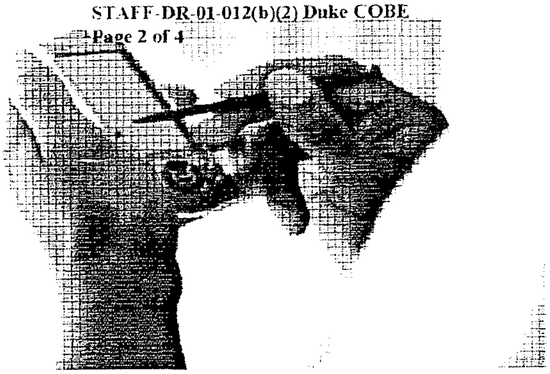
[illegible]

Duke Energy

CODE OF BUSINESS CONDUCT AND ETHICS FOR MEMBERS OF THE BOARD OF DIRECTORS

Duke Energy Code of Business Conduct and Ethics

For Members of the Board of Directors of Duke Energy Corporation



Introduction

Duke Energy's Board of Directors (the "Board") has adopted the following Code of Business Conduct and Ethics for Members of the Board of Directors of Duke Energy Corporation (the "Code").

The Code contains the standards and principles that enable directors to make good decisions that fulfill the letter and spirit of the law and support Duke Energy's values.

These values provide a strong and enduring framework for dealing with the ethical dilemmas that may arise in the course of doing business.

Responsibilities of Duke Energy Directors

All Duke Energy directors have a responsibility to understand and follow this Code. Directors who are employees of Duke Energy Corporation must also comply with the Duke Energy Code of Business Ethics, which is applicable to management and employees of Duke Energy.

Duke Energy directors must:

- *Follow the law and this Code. This responsibility cannot be delegated.*
- *Seek guidance before taking action when unclear about a situation. Directors are encouraged to bring questions about particular circumstances that may involve one or more of the provisions of the Code to the chief legal officer of Duke Energy, who may consult with inside or outside legal counsel as appropriate.*
- *Promptly respond to employee reports of unethical conduct or violations of laws, regulations or Duke Energy policies by reviewing the matter with the chief legal officer or the chief ethics and compliance officer and directing them to communicate with the employee. Duke Energy will not retaliate against any employee who reports suspected violations.*
- *Proactively promote ethical behavior and foster an environment of honesty and accountability*

Enforcement of the Standards in This Code

The Board will determine appropriate actions up to and including removal of a director from the Board in the event of violations of this Code. Such actions will be reasonably designed to deter wrongdoing and to promote accountability for adherence to this Code.

Waivers of This Code

All directors are expected to follow the standards set forth in this Code. Any waiver from any part of this Code requires the express approval of the Board or a committee of the Board, following disclosure of all relevant information and will be promptly disclosed to the public.

Annual Review

The Board or a committee of the Board will review and reassess the adequacy of this Code on a periodic basis and the Board may make any amendments to this Code that it deems appropriate.

This Code, revised February 26, 2008, supersedes all previous versions of the Code of Business Conduct and Ethics for Members of the Board of Directors of Duke Energy Corporation.

Standards of Conduct / Conflicts of Interest

A conflict of interest exists any time a director faces a choice between what is in his or her personal or professional interest (*financial or* otherwise) and the interests of Duke Energy. Directors are accountable for acting in Duke Energy's best interests, must avoid any conflict of interest and should carefully avoid even the appearance of acting inappropriately. Directors whose objectivity may be questioned because of an actual or perceived conflict of interest should notify the chief legal officer.
If a director has an actual or perceived conflict of interest, information regarding the conflict should be disclosed to the Board and the director should recuse himself or herself from any decision-making process regarding that matter.

Conflicts of interest may arise when:

- *A director or a member of his or her immediate family has an interest in an organization with which Duke Energy does business.*
- *A director or someone with a close relationship to a director or an organization with which the director is affiliated receives improper personal benefits as a result of his or her position on the Board.*
- *Other employment or service interferes with a director's ability to act in the best interests of Duke Energy, requires the use or disclosure of sensitive information about Duke Energy or creates the appearance of impropriety.*
- *A director or a member of his or her immediate family receives a loan or other extension of credit or credit support (such as a guaranty) from Duke Energy. Duke Energy is prohibited by law from extending or arranging for the extension of personal loans to directors.*

Corporate Opportunities

Directors are prohibited from taking for themselves personally, or for another organization with which they are affiliated, opportunities that are available to Duke Energy without the prior consent of the Board. Moreover, directors must not use Duke Energy property, information or position for personal gain. Directors owe a duty to Duke Energy to advance its legitimate interests when the opportunity to do so arises.

Confidential or Proprietary Information

Directors are entrusted with confidential and proprietary information that is not generally known to the public and that can provide a business advantage to others.

- *Directors must comply with laws protecting sensitive information from unlawful disclosure. Failure to comply can cause irreparable damage to the Duke Energy brand and result in legal penalties, adverse regulatory actions and restrictions.*
- *Directors should maintain the confidentiality of information given to them as directors except when disclosure is authorized or legally mandated.*
- *Directors must not disclose sensitive information to others (including employees of Duke Energy) unless they have a business need to know the information.*

Fair Dealing

Directors should deal fairly with Duke Energy's customers, suppliers, competitors and employees.

- *No director should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other intentional unfair dealing practice.*
- *Business courtesies are designed to build goodwill and sound working relationships among business partners, not to gain any special advantage in the relationship. No director should ever give or accept a business courtesy that might be intended to influence, or appear to influence, the director's actions as a member of the Board.*

Protection and Proper Use of Duke Energy Assets

Duke Energy invests in and uses certain assets to advance its business strategy and objectives. Directors are expected to protect Duke Energy assets and resources and ensure their proper use.

Compliance with Laws, Rules and Regulations

Duke Energy is subject to numerous local, state, federal and provincial laws, rules and regulations. Duke Energy's success depends on complying with both the spirit and the letter of the law. Directors are expected to comply with all applicable laws, rules and regulations. When there are questions about the existence, applicability or interpretation of any law, rule or regulation, directors should consult with the chief legal officer or other legal counsel as appropriate.

Insider Trading

Duke Energy's success in the marketplace requires that it maintains the trust and confidence of the investment community.

Duke Energy directors are expected to be very careful when trading securities.

- *Directors must not trade the securities of Duke Energy, or those of its suppliers, customers or other companies with which Duke Energy has a business relationship while in possession of material nonpublic information about either Duke Energy or such other company.*
- *Directors may not give material nonpublic [illegible]*
- *Directors must adhere to the terms of the Duke Energy Insider Trading Policy.*

Duke Energy.

Code of Ethics

Effective Jul. 1, 2011

PROGRESS ENERGY
ETHICS

Progress Energy

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A Message from Bill Johnson

Act with integrity. That's a clear expectation and firm requirement at Progress Energy, and it's central to our culture of responsible behavior and high performance. So read the information in this Code of Ethics. Understand and follow its guidance. Actively help our organization do the right thing.

Our culture statement on the next page contains two other attributes that relate directly to this strong ethical tone at Progress Energy. One attribute is to "treat everyone with respect, honesty and fairness," and the other is to "hold each other to high standards." These behaviors speak to our core commitment to earn trust and confidence inside and outside the Company.

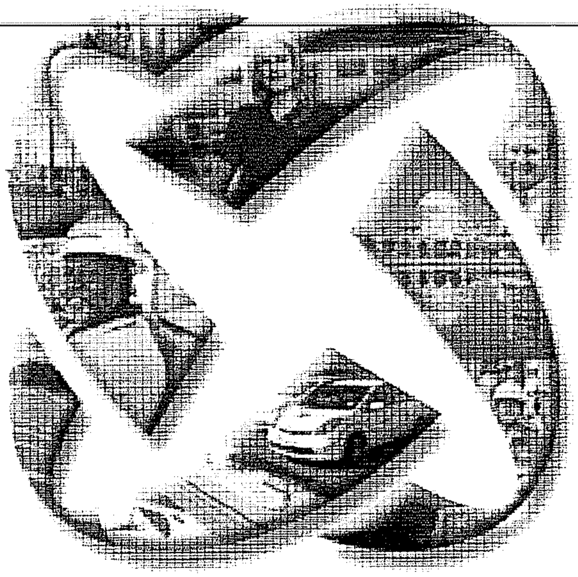
This Code of Ethics is an important part of our rigorous Ethics Program. If you have questions about it or any ethics-related matter, talk with your supervisor, or seek advice from the confidential Ethics Line (1.866.838.4427) or your Human Resources representative. It's important that you know, not assume, the right answer when it comes to ethical behavior.

Thank you for all you do to help us live up to our responsibilities at Progress Energy. We have a record to be proud of, but it requires daily attention to acting with integrity.

William D. Johnson

William D. Johnson
Chairman, President and Chief Executive Officer

Culture Statement



PEOPLE • PERFORMANCE • EXCELLENCE

Focus on safety first

•

Act with integrity

•

Excel in our core mission of serving customers

•

Be outstanding financial and environmental stewards

•

Cultivate diversity and inclusion

•

Treat everyone with respect, honesty and fairness

•

Hold each other to high standards

•

Collaborate, adapt and improve continuously

Corporate Ethics Overview

The Progress Energy Ethics Program provides a structural foundation for the prevention, detection and resolution of unethical and unlawful business-related conduct.

At the heart of the program is the Code of Ethics This document provides overall guidance in upholding our ethical and legal responsibilities and is supported by more detailed guidance provided in the Company's policies, practices and procedure manuals. Covering the endless variety of situations with a single Code of Ethics is impossible, thus, employees must accept personal responsibility for exercising appropriate behavior and maintaining high ethical standards Employees are also responsible for acquiring sufficient knowledge of the laws and regulations impacting their work responsibilities to meet the standards set forth in this Code of Ethics.

Employees may report ethics concerns using a 24-hour telephone line administered by an independent company The Ethics Line provides a confidential and anonymous way for employees to submit ethics-related questions or report suspected Code of Ethics violations without fear of reprisal. Employees may also raise ethics-related issues to their supervisor, Human Resources representative, or directly to a member of the Ethics Program staff Allegations of Code of Ethics violations are investigated, and if substantiated, responsive action is taken in the form of disciplinary action, enhanced controls or other appropriate measures.

The Code of Ethics and the related policies, practices and procedures are not intended as a contractual commitment or obligation of Progress Energy to its employees The Company reserves the right to modify, amend or rescind any provision in this Code of Ethics or any policy, practice or procedure

Responsibilities

Every Progress Energy employee, contractor and board member is responsible for creating and maintaining a workplace environment that promotes ethical and legal behavior. Individual performance is measured against a backdrop that focuses on a demonstrated commitment to compliance with the Code of Ethics and with legal and regulatory requirements relevant to the Company's business.

EMPLOYEES, CONTRACTORS AND BOARD MEMBERS

All employees, contractors and board members are expected to:

- Read, understand and abide by the Code of Ethics
- Exercise appropriate behavior and maintain the highest standards of ethical conduct when representing the Company in an official capacity, which includes traveling on Company business and attending functions hosted by third parties (e.g., conferences, storm duty, etc.)
- Seek advice from their supervisor, the confidential Ethics Line (1.866.8ETHICS or 1.866.838.4427), a Human Resources representative or other appropriate Company source if uncertain about the meaning or application of the Code of Ethics or when in doubt about the best course of action in a particular situation
- Learn and comply with laws and regulations applicable to their work responsibilities.
- Contribute to a workplace environment that is conducive to and encourages compliance with the Code of Ethics and with laws and regulations
- Maintain sensitivity to alleged, actual or suspected illegal, unethical or improper conduct by a co-worker, supplier, customer, consultant or other person or organization with whom the Company has a relationship, and report such misconduct to management, a Human Resources representative, a member of the Ethics Program staff or to the Progress Energy Ethics Line.
- Cooperate with Company investigations by providing complete and truthful information. Failure to do so may be deemed a Code of Ethics violation that may lead to disciplinary action, up to and including termination

MANAGEMENT

In addition to their responsibilities as employees, all Progress Energy leaders have a responsibility to ensure that employees within their line organizations are aware of and adhere to their ethical responsibilities. Company executives, managers and supervisors must develop and maintain a workplace environment that stresses commitment to and compliance with the Code of Ethics and with laws and regulations Company leaders are expected to:

- Exhibit the highest standards of ethical conduct at all times and avoid the perception of unethical behavior.
- Ensure that employees under their supervision receive a copy of the Code of Ethics and read and understand its requirements
- Ensure that employees receive appropriate training in the meaning and application of the Code of Ethics and in the laws and regulations related to their work area
- Ensure that employees understand their affirmative duty to report actual or suspected Code of Ethics violations and the procedures and mechanisms available to them for reporting.
- Welcome discussion around employee ethics questions and concerns
- Forward reports of suspected Code of Ethics violations to the Ethics Program for investigation using appropriate program resources
- In the event a Code of Ethics violation is substantiated, take appropriate remedial action including but not limited to disciplinary action, employee training and/or policy or practice changes.
- Maintain a workplace environment that prevents retaliation or reprisals against an employee who in good faith reports actual or suspected Code of Ethics violations. Retaliation against employees who report perceived harassment or other Code of Ethics violations, or who participate in investigations as witnesses or in other capacities. violates the law and Company policy
- Avoid a romantic, sexual or financial relationship with an employee or contractor within their scope of supervisory control, because it reasonably could be perceived to give unfair advantage to the employee or contractor and could impugn the integrity of the manager or the reputation of the Company. In the event that such a relationship should develop the manager must immediately disclose the relationship to his or her immediate supervisor and his or her department head to ensure that the matter is evaluated fully

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PROGRAM ADMINISTRATION

The Audit Services Department is responsible for administering the Ethics Program under the guidance of the Legal Department Ethics Program staff provide tools and resources that facilitate the understanding of Code of Ethics requirements and the reporting and investigation of suspected Code of Ethics violations

Ethics Program Staff Accountabilities

The Audit Services Department maintains an Ethics Program staff accountable for the following:

- Promoting an organizational culture that encourages ethical, lawful conduct
- Developing, maintaining and interpreting the Code of Ethics
- Administering a system for reporting, investigating and responding to alleged violations of the Company's Code of Ethics
- Ensuring that appropriate and consistent action is taken in response to substantiated ethics cases
- Developing and delivering an ongoing awareness campaign designed to enhance directors', employees' and contractors' awareness of and compliance with the Progress Energy Code of Ethics

Reporting Suspected Code of Ethics Violations

Employees, contractors and board members who suspect a violation of the Code of Ethics should contact their immediate supervisor or their next level of management If for any reason individuals do not wish to report an issue to their supervisor, they may also report suspected Code of Ethics violations to their Human Resources representative, a member of the Ethics Program staff, or anonymously and confidentially to the Ethics Line at 1 866.8ETHICS (1 866 838 4427) or in writing to this address Ethics Line, P.O. Box 1348, Raleigh, NC 27602.

The Ethics Line is a 24-hour dedicated telephone line maintained for Progress Energy by an independent company Ethics Line reports may be made anonymously Calls received on this line will be answered by specially trained individuals and will be reported to the Ethics Program staff for appropriate investigation. Employees may also call the Ethics Line to check on the status of previously reported allegations Mail received in the post office box will be removed by a member of the Ethics Program staff and handled in the same manner as telephone calls.

Issues related to the operation, design, fabrication, modification, maintenance, test or inspection of Progress Energy's nuclear plants should be reported through appropriate lines of management or through the Nuclear Generation Group Employee Concerns Program per NOS-NGGC-0400 Employee Concerns Program Suspected ethics violations reported to the Nuclear Generation Group Employee Concerns Program will be dispositioned through the Ethics Program

Investigations

Allegations of Code of Ethics violations are investigated by trained subject matter expert investigators. Investigations are, to the extent possible, conducted confidentially Under no circumstances will an investigation be conducted by, or under the supervision of, an individual alleged to have committed the violation at issue

Allegations Relating to Accounting and Internal Controls

In the event of serious allegations regarding accounting, internal controls or auditing matters, the Audit and Corporate Performance Committee of the board of directors conducts a special review according to Procedure for the Receipt of Complaints by the Progress Energy Audit and Corporate Performance Committee of the board of directors, ADM-HOCO-00004 This policy covers complaints regarding actions taken by senior management or complaints of any unethical or criminal activity regarding fraud, accounting, internal controls or auditing matters that relate to the fair and accurate presentation of information in the Company's financial statements

Disciplinary Measures

All employees are expected to comply with the Code of Ethics Failure to do so will result in disciplinary action, up to and including termination of employment An employee also is in violation of the Code of Ethics if he or she assisted in activities, had sufficient knowledge of and did not report activities, or directed or authorized others to perform activities that violate the Code of Ethics. Employees who violate the Code of Ethics may be denied their annual Employee Cash Incentive Program (ECIP) award. Managers participating in the Management Incentive Compensation Program (MICP) may have their reward reduced or denied.

Employees, contractors and board members are required to cooperate and shall not provide false or misleading information during any Company investigation or any investigation relating to a Company activity. Employees, contractors and board members who fail to cooperate, or who provide false or misleading information, shall be subject to discipline, up to and including termination

Code of Ethics Inquiries

This booklet features several scenarios involving ethics violations, but covering the wide variety of potential situations within a single Code of Ethics is impossible If there are questions about how to handle a particular situation, employees and contractors should consult with their supervisors for guidance If individuals do not wish to discuss the situation with their immediate supervisor, they should contact their Human Resources representative, a member of the Ethics Program staff or the Ethics Line (1.866.8ETHICS or 1 866 838 4427).

Employees, contractors and board members may also visit the Ethics Program website, http://progressnet.moss/ethics/Pages/Default.aspx, accessed via the Company intranet The site features Ethics Program contact information, frequently asked ethics questions and an archive of ethics-related communications

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PROGRAM OVERSIGHT

The Ethics Program is overseen by Company executives and members of the board of directors Specific oversight roles and responsibilities include the following:

Board of Directors Audit and Corporate Performance Committee

The Progress Energy Board of Directors Audit and Corporate Performance Committee provides governance oversight for the Ethics Program. The Committee's responsibilities include the following:

- Maintain knowledge and understanding regarding the content and operation of the Corporate Ethics Program
- Provide reasonable oversight with respect to the implementation and effectiveness of the Corporate Ethics Program
- Conduct special reviews according to Procedure for the Receipt of Complaints by the Progress Energy Audit and Corporate Performance Committee of the Board of Directors. ADM-HOCO-00004

Senior Management Committee

The Company's Senior Management Committee (SMC) provides policy oversight for the Ethics Program The responsibilities of SMC members include the following:

- Maintain knowledge and understanding regarding the content and operation of the Corporate Ethics Program
- Create and maintain an organizational culture that encourages law-abiding and ethical conduct
- Serve as the final approving authority for updates to the Code of Ethics and related policies and procedures
- Appoint executives to serve on the Corporate Ethics Committee
- Maintain awareness within individual members' respective line organizations regarding the significance of and duty to comply with the Code of Ethics

Chief Ethics Officer

Progress Energy's General Counsel, or his or her designee, shall serve as the Chief Ethics Officer. His or her responsibilities are to:

- Ensure the Corporate Ethics Program complies with relevant laws, regulations and other applicable guidance
- Oversee the investigation of cases posing a high risk to the Company as the result of legal or regulatory exposure, media interest and/or employee relations issues
- Ensure communication with the SMC and board of directors Audit and Corporate Performance Committee regarding Ethics Program activity so that these committees may monitor program trends

Corporate Ethics Committee

The Corporate Ethics Committee is chaired by the Chief Ethics Officer and includes executive representatives from across the Progress Energy system. The Committee meets on a periodic basis and provides operational oversight for the Ethics Program. Its responsibilities are to:

- Monitor trends and review cases investigated by the Ethics Program to ensure appropriate and consistent action is taken in response to substantiated allegations of violations of the Code of Ethics
- Review benchmarking and best practices for corporate ethics programs to ensure that the Ethics Program maintains its effectiveness
- Review and recommend ethics-related policies and procedures to the SMC

Compliance with Laws and Regulations

Employees shall comply with all applicable laws and regulations in carrying out their work responsibilities and report actual or suspected violations.

YOUR RESPONSIBILITY

Because of the nature of its business, the Company is subject to numerous, complex legal requirements. Employees are expected to acquire sufficient knowledge of applicable laws and regulations on safety, health, the environment, employment and other areas impacting their work responsibilities This will help ensure that Company operations are conducted in conformity with the applicable laws and regulations. Violations of the law can result in both personal and corporate liability

Conduct that occurs away from Company property and outside of the normal course of Progress Energy business may also negatively impact the Company. Off-duty illegal activity may jeopardize workplace safety or security, Progress Energy's image and reputation, or the Company's ability to carry out its duties. The impact of any off-duty illegal activity on the Company's interests will be assessed on a case-by-case basis Progress Energy may take disciplinary action, up to and including termination of employment, as the result of an employee's, contract worker's or board member's off-duty illegal activity in violation of the Code of Ethics.

QUESTIONS AND ANSWERS

Q. Some of the regulations that apply to my job seem trivial or inconsistent. Must I really obey them all even if they make it difficult to do my job?

A. Yes. We must obey every applicable law and regulation. If you have questions about the interpretation of any requirement, you or your management should consult the Legal Department, a member of the Ethics Program staff or call the Progress Energy Ethics Line at 1.866.8ETHICS (1.866.838.4427).

Q. I work at a NERC CIP site and it is inconvenient to badge in every time I re-enter the restricted area. I know I am supposed to adhere to the Company's NERC CIP Enterprise Physical Security Plan but would it be OK to temporarily prop open the door or tape the latch down so I can get in and out faster?

A. No. The NERC CIP Enterprise Physical Security Plan, SEC-SUBS-00086, clearly states that compromise of the established physical access controls is prohibited.

Q. Do I really have to complete certain kinds of training such as the Federal Energy Regulatory Commission (FERC) Standards of Conduct training every year?

A. Yes. Compliance with federal and state regulations must be a priority for Progress Energy employees in all of our business activities. Attention to requirements such as the FERC Standards of Conduct, which dictate annual training for designated employees, is an important part of our compliance culture.

Q. My driver's license was recently suspended but I am required to drive on Company business. Am I obligated to report this to my supervisor?

A. Yes. According to the Company's Driver's License Policy, HRI-SUBS-00335, employees required to drive on Company business must report any suspension, revocation or other change in license status to the supervisor before the end of the business day following the day the driver received notice of the change

Employment Practices

Progress Energy is an equal opportunity employer. As such, the Company offers equal employment opportunities without regard to race, color, religion, national origin, sex or gender, pregnancy, sexual orientation, age, disability, covered veteran status or genetic information.

YOUR RESPONSIBILITY

Progress Energy's commitment to equal employment opportunities covers all terms, conditions and privileges of employment, including, but not limited to, hiring, job placement, training, compensation, discipline, advancement and termination. The Company complies with federal affirmative action guidelines to meet its requirements as a federal contractor and because it is committed to making good faith efforts to achieve equal employment opportunities.

QUESTIONS AND ANSWERS

Q. I want to apply for a position in an area in which I have several years of experience, but I was told that the position would go to a younger, less experienced, "high potential" candidate because the hiring manager needs to develop some "bench strength." This seems discriminatory. Should I still apply?

A. Yes. You should apply for the job so the hiring manager knows that you are interested in this position. The hiring manager should select the best-qualified candidate for the position, regardless of age. However, you should recognize that a diversity of length of service and types of job experience within a workgroup is a legitimate selection criterion and not inconsistent with the Code of Ethics. The Company's Equal Opportunity Policy, HRI-SUBS-00205, states that the Company will "provide equal opportunity in all job classifications to all employees and applicants for employment. No person will be discriminated against on the basis of race, color, religion, national origin, sex or gender, pregnancy, sexual orientation, age, disability, veteran status or genetic information." Employees who believe they are being, or have been, discriminated against based on one or more of the above referenced categories should immediately report the incident to their management, a Human Resources representative, a member of the Ethics Program staff or the Ethics Line.

Q. I heard that when the Company receives federal funding it is subject to affirmative action requirements that set racial and gender-based hiring quotas. Aren't hiring quotas discriminatory?

A. Yes. As a federal contractor, PGN is required to follow affirmative action guidelines set by the Office of Federal Contract Compliance Programs. These guidelines do not require the Company to meet hiring quotas but rather to develop and maintain action-oriented programs that it believes in good faith will promote equal employment opportunity through the development of diverse applicant pools. The Company's affirmative action requirements do not impact a hiring manager's responsibility to hire the best-qualified candidate based on the posted job requirements, according to HRI-SUBS-00200

Harassment

Employees shall not harass anyone else in the workplace on the basis of race, color, religion, national origin, sex or gender, pregnancy, sexual orientation, age, disability, covered veteran status or genetic information.

YOUR RESPONSIBILITY

Harassment is prohibited and will not be tolerated. Sexual harassment and other types of discriminatory harassment violate Company policy and the law.

Sexual Harassment

Sexual harassment can include unwelcome sexual advances, requests for sexual favors, and other verbal or physical harassment of a sexual nature when such conduct explicitly or implicitly affects an individual's employment, unreasonably interferes with an individual's work performance, or creates an intimidating, hostile or offensive work environment.

Sexual harassment includes actions and behaviors that take place between members of the same sex as well as members of the opposite sex. The most blatant type of sexual harassment is a request for sexual favors in exchange for job-related benefits. Other examples of conduct that may be found to be sexual harassment may include, but are not limited to, the following:

- Verbal – propositions or innuendo, flirtation, suggestive or offensive comments; sexist comments; humor, jokes and teasing about sex or gender-specific traits, rumors about other employees, whistling; and verbal abuse and insults.
- Nonverbal – sexually oriented gestures, signs, cartoons, pictures, graffiti or paraphernalia.
- Physical – touching, patting, pinching or brushing the body.

Other Types of Harassment

Harassment includes verbal, nonverbal, or physical conduct that shows dislike or hostility because of race, color, religion, national origin, sex or gender, pregnancy, sexual orientation, age, disability, covered veteran status or genetic information and that:

- Creates an intimidating, hostile or offensive working environment,
- Unreasonably interferes with an individual's work, or
- Adversely affects an individual's employment opportunities.

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Harassment

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Employees who believe they have been harassed or observe or otherwise become aware of such harassment should immediately report the incident to their supervisor, their Human Resources representative, the Manager – Corporate Diversity and Inclusion/Equal Employment Opportunities or the Ethics Line.

This procedure does not require an employee to report perceived harassment to a supervisor or to an individual whom the employee believes to be the harasser. All reports of harassment will be investigated. Under no condition will the investigation be conducted by or under the direction of the alleged harasser(s). For a more complete description of the Company's sexual harassment policy, see the Employee Handbook, HRI-SUBS-00315

QUESTIONS AND ANSWERS

Q. Sometimes I have heard inappropriate jokes and vulgar language used by others at work. When my co-worker brought this to the attention of a senior member of our team, the response was "Lighten up and get used to it, that's just the way we behave." What should I do?

A. Employees who believe they are being harassed or who observe or otherwise become aware of such harassment in the workplace should immediately report the incident to any one of the reporting sources identified above. Employees are encouraged to speak with the person listed above with whom they feel most comfortable.

Q. During a seminar my workgroup was attending, I heard a co-worker address our female counterpart in a very unflattering and derogatory manner. This comment made the entire table uncomfortable, but since it happened outside of the workplace, we felt it was none of our business. Were we right?

A. Employees are expected to exercise appropriate behavior and maintain the highest standards of ethical conduct when representing the Company in an official capacity, which includes traveling on Company business and attending functions hosted by third parties (e.g., conferences, storm duty, etc.).

Q. I recently attended a training session at work where the facilitator repeatedly referred to a couple of employees as "The Golden Years Group" and the "Centrum Silver Crowd." Everyone in the class laughed, including the individuals he was targeting, but is it really appropriate to address employees in this manner?

A. No. Any joke that is intended to demean on the basis of age is improper. Sometimes people laugh to cover up their embarrassment or discomfort. It is important for employees to act consistently with our values of inclusion and collaboration.

Workplace Violence

The Company strives to provide a workplace for employees that is free from physical attack, threats of violence and menacing or harassing behaviors.

YOUR RESPONSIBILITY

The Company is committed to providing a safe and respectful workplace and will not tolerate any unwanted or hostile physical contact, including physical attack, threat of violence, harassment, intimidation, gesture or damage of property by or against any employee.

Any employee who experiences, witnesses or has knowledge of acts, conduct, behavior or communication (i.e., a threat) that may be or may lead to a workplace violence event should immediately report the incident to any of the following:

- Their immediate supervisor or next level of management.
- Their Human Resources representative.
- Corporate Security Command Center at 1.888.275.4357 (24 hours a day/7 days a week).
- The Ethics Line at 1.866.8ETHICS (1.866.838.4427).

If you are a Progress Energy leader, you have a special responsibility to help ensure a violence-free workplace.

Reports or complaints of violence, threat of violence, or harassment will be taken seriously and promptly investigated.

QUESTIONS AND ANSWERS

Q. What should I do if I see a potentially violent situation developing between two of my colleagues?

A. The Workplace Violence Prevention and Response Policy, SEC-SUBS-00077, states if you see or hear any act that is threatening, or carries the potential for violence, call your supervisor, Corporate Security (1.888.275.4357), or your workgroup's Human Resources representative. Act immediately.

Q. I overheard a co-worker threaten another employee. The other employee was upset but was afraid to report the incident. Should I report it?

A. Tell your supervisor about the incident immediately. If you can't reach a member of your workgroup's management team, contact Corporate Security (1.888.275.4357) or a member of the Ethics Program staff. Progress Energy investigates all reported acts or threats of violence.

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Workplace Violence

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Q. My co-worker has been under an enormous amount of stress lately. What are some warning signs that could lead to a potential workplace violence incident?

A. See the list below:

- Excessive absenteeism or lateness
- Disregard for the health and safety of others
- Increased mistakes or errors, or unsatisfactory work quality
- Refusal to acknowledge job performance problems
- Faulty decision making
- Testing the limits to see what they can get away with
- Overreacting to criticism
- Intimidating behavior

It is extremely important to understand that the above behaviors do not mean a person will become violent, but they may indicate that the person is experiencing high levels of stress

Always take particular note and seek assistance from Corporate Security or a Human Resources representative if:

- There is a change in behavior patterns.
- The frequency and intensity of the behaviors are disruptive to the work environment.
- The person is exhibiting many of these behaviors, rather than just a few.

Firearms and Weapons

To ensure a safe environment for our employees, customers and contractors, the display, sale, transportation, possession or use of firearms or weapons on property owned, leased or otherwise used by the Company is restricted.

YOUR RESPONSIBILITY

To ensure a safe environment for our employees, customers and contractors, the display, sale, transportation, possession or use of firearms or weapons on property owned, leased or otherwise used by the Company is restricted as follows:

- To the extent allowed by applicable laws and regulations, handguns are strictly prohibited on all Company property in North Carolina and South Carolina, except for security weapons carried and utilized in accordance with Nuclear Generation Group (NGG) procedures
- In order to comply with Florida Statute Section 790.251, and to the extent required by other applicable laws and regulations, handguns are permitted on Company property in Florida in limited circumstances, provided: (1) the employee has a current license to carry a concealed firearm issued pursuant to Florida Statute Section 790.06, (2) the firearm is out of sight in a locked private vehicle or in a locked compartment of the vehicle, and (3) the private vehicle is not on any Company property where a nuclear generation facility is located. An exception applies for security weapons carried and utilized in accordance with NGG procedures, which are permitted on Company property.
- Long guns, including rifles and shotguns and associated ammunition used for hunting, are allowed on Company property in North Carolina, South Carolina and Florida provided they are out of sight in a locked private vehicle and in compliance with applicable laws and regulations.
- Other use or possession of firearms or weapons on Company premises or property must be approved by the director of Corporate Security.

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Firearms and Weapons

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QUESTIONS AND ANSWERS

Q. I like to go deer hunting after I finish my shift at work. Is it OK if I keep my shotgun in the gun rack of my locked pick-up truck?

A. Shotguns and other long guns used for hunting are allowed on Company property provided they are out of sight in a locked private vehicle and in compliance with applicable laws and regulations. If the gun rack in your vehicle is visible, then you are not in compliance with this policy.

Q. Is it OK if I keep my handgun locked in the trunk of my car?

In North Carolina and South Carolina:

A. No. In North Carolina and South Carolina, handguns are not permitted on Company property at any time with the exception of security weapons carried and utilized in accordance with NGG procedures, or unless otherwise expressly approved by the director of Corporate Security.

In Florida:

A. To the extent required by law, yes, provided: (1) you have a current license to carry a concealed firearm issued pursuant to Florida Statute Section 790.06, (2) you keep the handgun locked out of sight in your car trunk at all times while on Company property in Florida, (3) your car is not on Company property where a nuclear generation facility is located, and (4) the handgun is in compliance with applicable laws and regulations.

In compliance with Florida Statute Section 790.251, the entire Crystal River Energy Complex – which includes Crystal River Nuclear Plant, Crystal River Fossil Plant and Crystal River Mariculture Center – is designated as a nuclear generation facility. Handguns are not allowed on Company property designated as a nuclear generation facility, with the exception of security weapons carried and utilized in accordance with NGG procedures, or unless otherwise expressly approved by the director of Corporate Security. This means if you work in the Crystal River Energy Complex, you are not allowed to keep a handgun locked in your vehicle.

Q. If I work for Progress Energy Florida and my primary work location is in Florida but I spend periods of time in the Carolinas, can I leave a handgun in my car at work during the periods I am assigned to work in North Carolina and South Carolina?

A. No. In North Carolina and South Carolina, handguns are not permitted on Company property at any time with the exception of security weapons carried and utilized in accordance with NGG procedures, or unless otherwise expressly approved by the director of Corporate Security.

Conflict of Interest

Employees must not let their outside business interests, or those of immediate family members and other closely affiliated persons, conflict with their obligations to the Company.

YOUR RESPONSIBILITY

A "conflict of interest" is a situation in which a choice must be made between one's individual best interest (financial or otherwise) and the best interest of the Company. Employees must not let their outside business interests, or those of immediate family members and other closely affiliated persons, conflict with their obligations to the Company. "Immediate family members and other closely affiliated persons" means an employee's spouse, child, stepchild, mother, father, stepmother, stepfather, sister, brother, grandmother, grandfather, mother-in-law, father-in-law, son-in-law, daughter-in-law and grandchild or any relative who resides in the employee's household. It also includes an employee's domestic partner (as defined in the Guide to Benefits for Domestic Partners Document, HRI-SUBS-30004) and the domestic partner's applicable family members as listed above.

Employees are expected to avoid conflicts of interest and the appearance of such conflicts, as these situations may arise in many ways. Examples include, but are not limited to, the following:

- Placement of business with a firm supplying goods and services to the Company in which an employee or an employee's immediate family member has a material financial interest.
- Being employed in any capacity, such as director, officer, employee, representative or consultant, with any outside business dealing (or planning to deal) with the Company.
- Being employed in any capacity, such as director, officer, employee, representative or consultant, with a competitor of the Company.
- Leasing or rental of facilities or equipment to the Company by an employee or immediate family member.
- Being employed by, or engaged in, any outside business, whether or not such business deals with the Company, if the employee:
    - Uses his or her position with the Company to an advantage in the outside employment.
    - Pursues endeavors contrary to the interest of the Company.
    - Allows the outside business to interfere in any way with the employee's full performance of duties and responsibilities with the Company.

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Conflict of Interest

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- Disclosing or using confidential information, obtained in the course of employment with the Company, for any personal gain or the benefit of any outside interest.

- Appropriating a corporate opportunity for the benefit of the employee

Any employee who may have a conflict situation, actual or potential, has a duty to report all pertinent details to his or her supervisor. If the supervisor determines that the situation is a conflict or a potential conflict, the supervisor should complete the Conflict of Interest Form (FRM-HOCO-00185) and forward the form up through his or her management to the department head. In the case of a conflict of interest involving the Company's chief executive officer or chief financial officer, disclosure of the conflict situation shall be made to the Audit and Corporate Performance Committee of the Progress Energy Board of Directors through the vice president – Audit Services. Department heads reviewing Conflict of Interest forms should submit recommendations to resolve or prohibit the potential conflict to the Corporate Ethics Officer or designee. The Corporate Ethics Officer or designee will review the recommendations for consistency among the business units and advise the employee, in writing, as to management's determination and will give written instructions on the appropriate actions to be taken by the employee.

QUESTIONS AND ANSWERS

Q. I have recently been made aware that there is a romantic relationship between my female manager and a male colleague in my workgroup. Won't it be difficult for my manager to remain neutral when it comes to issues such as promotions and PDP ratings?

A. Managers should avoid a romantic, sexual or financial relationship with an employee or contractor within their scope of supervisory control, because it reasonably could be perceived to give unfair advantage to the employee or contractor and could impugn the integrity of the manager or the reputation of the Company. In the event that such a relationship should develop, the manager must immediately disclose the relationship to his or her immediate supervisor and his or her department head to ensure that the matter is evaluated fully.

Q. A long-time friend recently took a job with a Progress Energy supplier. We've socialized for a number of years, but now I wonder if our friendship poses a business ethics problem.

A. It might. If you play a role in the selection process for contracts on which your friend or his company have bid, or if you have to deal with your friend on behalf of Progress Energy, you should disclose your friendship to management and excuse yourself from participating in decisions or negotiations with your friend and the supplier.

Q. A vendor who is also a friend of mine outside of work recently offered me season hockey tickets if I promised to "throw him a bone" occasionally during the bidding process. Since I have no say in the final selection of vendors, can I accept the tickets?

A. No. Accepting the tickets could be perceived as a conflict of interest between the Company and the vendor This transaction would also likely violate our policy on accepting gifts since the tickets are worth more than a modest amount and it is not something the Company would reciprocate for the vendor.

Q. A local electric utility co-op has asked me if I am interested in doing some consulting work for them on a part-time basis Since it would not interfere with my full-time position here at the Company, is it OK to accept the position?

A. The Company's Outside Employment Policy, HRI-SUBS-00340, directs that outside employment must not interfere with employee performance or availability for emergency or overtime work Outside jobs must not conflict directly or indirectly with the Company's business or reflect adversely upon the Company's image Without written authorization from their supervisor, employees cannot be employed in any capacity, such as consultant, with a competitor of the Company

Gifts and Entertainment

Employees must exercise good judgment in giving or receiving business-related gifts and/or entertainment. Employees shall not offer personal favors or gifts of more than modest value that could be perceived as an attempt to improperly influence the decisions of existing or potential customers or suppliers. Likewise, employees or their families shall not request or accept favors or gifts of more than modest value that could be perceived as an attempt to influence the performance of duties or to favor existing or potential customers and suppliers.

YOUR RESPONSIBILITY

Covering the endless variety of situations involving the giving and receiving of gifts and entertainment is impossible, thus, employees must accept personal responsibility for exercising appropriate judgment to avoid real or perceived undue influence in their dealings with customers and suppliers. The following guidelines and examples are provided to assist you in fulfilling that responsibility. If you are unsure regarding a particular gift or event, discuss the situation with your supervisor or call the Ethics Line at 1.866.8ETHICS (1.866.838.4427).

All of the Company's procurement and other business decisions must be made objectively, solely on the basis of quality, service, price and other competitive factors. The Company understands and respects that our customers have a similar goal in the operation of their business. Therefore, business decisions made on behalf of Progress Energy must be free from undue influence or conflict of interest, or even the appearance of such undue influence or conflict of interest, from suppliers and customers.

Occasionally, employees may exchange business courtesies including gifts and entertainment with clients to foster good will and enhance business relationships. Such business courtesies should be infrequent, reasonable, customary, legal and of modest value. Modest value is defined as an amount that would not be perceived as lavish or extravagant given the relevant facts and circumstances. In determining whether a particular offer is of modest value, employees should consider whether they would be comfortable disclosing the gift or entertainment to their supervisor, another vendor or customer, the media and/or the regulators who oversee Company operations. Among the factors that are important in determining the appropriateness of business entertainment offered and received by the Company are:

- Value, frequency and timing;
- Whether the setting is conducive to building a business relationship, and
- Whether the entertainment is fully visible to management in the organizations who give and accept it.

Acceptable forms of entertainment include infrequent, modest hospitality such as meals, charity events, sporting events, holiday gatherings or other celebrations, plays, concerts or other cultural events. (Some Progress Energy departments have specific guidelines around these activities.) Acceptable gifts include customary and inexpensive gifts of a promotional nature such as hats, golf shirts, mugs or calendars.

Neither employees nor their family members should give or accept offers of gifts or entertainment from those who do or may seek to do business with the Company if the gifts are lavish or expensive, if they are likely to be perceived by others as an attempt to influence business decisions, if public disclosure would embarrass the Company or if doing so would violate the law or social norms Unacceptable forms of gifts and entertainment may include, but are not limited to, the giving or receiving of

- Cash or a cash equivalent (such as a gift card),
- Entertainment offers that are "personal" to the recipient and do not provide for interaction between a Progress Energy employee and a supplier or customer (tickets to an event for use by the recipient and his or her guests only, offers of a beach house for the weekend),
- Product or service discounts that are not available to all employees, or
- Gifts with a high monetary value

Employees offered items by vendors that would not be appropriate to accept as gifts may, with approval from their vice president or senior executive, purchase the items from the vendor at their fair market value

Employees should exercise particular caution in regard to any offers of value, including hospitality, entertainment and gifts, when the Company is negotiating or considering contracts and the employees are in a position to influence, directly or indirectly, the outcome of a decision. It is important not to give any impression that there may be an inappropriate connection between any gift or entertainment and a business opportunity.

Travel to or overnight stays at functions that are in the best interest of the Company generally should be paid for by the Company. Employees serving on professional committees or serving as a conference speaker may generally accept the event sponsor's offer to pay reasonable travel costs as long as other committee members or speakers who are not Progress Energy employees are treated equally. Otherwise, payment of travel expenses by an outside organization must be appropriately documented and approved in writing by the appropriate Company department head or senior executive prior to their occurrence. Documented approvals should be maintained by employees obtaining the approvals. Employees may accept meals, entertainment and promotional items of a modest value provided to all attendees during conferences and similar meetings

Employees may also accept meals or entertainment offered in conjunction with meetings to discuss Company business. Employees must not accept such offers if they are lavish or expensive or if they are likely to be perceived by others as an attempt to influence business decisions The Company may sponsor events (such as the U.S. Open) as a part of the Company's responsibility to be a good corporate citizen and may use such events to build business relationships with key customers and stakeholders Similarly, the Company also promotes economic development by helping local communities recruit businesses to our service territory These events and activities are approved by senior management and coordinated by the appropriate level of Company management

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Gifts and Entertainment

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QUESTIONS AND ANSWERS

Q. A contractor with whom we just signed a large contract has offered to pay my expenses for an orientation program at his out-of-state facility Since we no longer are negotiating with this contractor and the travel will enhance the Company's ability to manage the contract, may I accept the offer?

A. Business-related travel expenses generally should be paid for by Progress Energy. If you believe that extenuating circumstances support payment of your travel expenses by this contractor, you should discuss the situation with your department head and, in the event the department head agrees, his or her approval for vendor funding must be documented and approved in writing by the appropriate Company department vice president or senior executive in advance of the travel.

Q. A supplier offered me tickets to the Super Bowl May I accept the tickets?

A. Probably not; whether the tickets were offered for your personal use or whether they were offered in conjunction with a meeting to discuss Progress Energy business, the value of this offer may be viewed by others as an attempt to influence your business decisions Consult with your department vice president to determine whether it would be appropriate for you to pay the supplier the fair market value of the tickets

Q. During the end-of-year holiday season, many vendors send food baskets of various sizes and values, as well as other items, to thank me for the business I conduct with them on behalf of Progress Energy May I accept these gifts?

A. Employees may accept infrequent gifts of modest value Gifts of food generally are considered to be of modest value. When practical, such gifts should be shared among your workgroup

Q. I was offered a discount on catering services for my daughter's wedding by a company that I retain for Progress Energy events May I accept the discount?

A. This would generally be an example of a "personal" discount and should be declined. Also, accepting gifts of more than a modest value from a vendor that you retain would rarely be acceptable. However, you may accept the discount if it is available to all Progress Energy employees. Talk to your manager or call the Ethics Line if you need help with a specific vendor.

Q. A Progress Energy contractor who has done business with my department for years invites me to lunch at least twice a month I manage the work that his firm does and it is important for me to maintain a good working relationship with him What should I do?

A. Infrequent lunch invitations of modest value from vendors may be accepted if the setting is conducive to building a business relationship Invitations of the frequency described above may, however, be perceived to create a conflict of interest. If it is important for you to spend time outside the workplace with the contractor you should split the lunch tab with him. or host him during some of the lunch outings

Q. My department sponsors an annual golf tournament. All participants pay an entry fee that more than covers the cost of a round of golf; the net proceeds from the event go to charity. To promote good working relationships, we invite our vendors to participate. One of our vendors has offered to provide golf tees and caps featuring the vendor's logo to distribute to all participants. Other vendors have offered to donate items such as golf clubs, college basketball tickets and restaurant gift cards to be used as door prizes. Since the proceeds will all go to charity, may we accept these vendor offers?

A. The Gifts and Entertainment Policy applies to all vendor offers to Progress Energy and its employees, regardless of whether a gift will be used to promote a charitable cause. If the golf tees and caps are of modest value, and if you have not asked the vendor to provide them in violation of the Company's Solicitation, Fundraising and Distribution of Materials Policy, HRI-SUBS-00345, you may accept that offer. The door prize offers, however, appear to be of more than modest value and/or otherwise outside the guidelines provided for vendor gifts. Acceptance of the door prizes could create the appearance of an attempt at vendor influence by supporting a Progress Energy-sponsored initiative.

Q. As a token of appreciation for a job well done, a vendor sent every member of my workgroup a $25 gift card. Are we allowed to keep them?

A. No. The Code of Ethics provides that the giving or receiving of cash or a cash equivalent – such as a gift card – from a vendor is prohibited.

Securities Trading

Employees are prohibited from purchasing or selling any Progress Energy securities as a result of inside information or from disclosure of inside information to any other person (including family or friends) who then trades Progress Energy securities based on the information.

YOUR RESPONSIBILITY

Insider information includes material nonpublic Company information an employee learns through his or her employment. Insider information could include projections of future earnings; a pending or proposed merger, acquisition or tender offer; a significant sale of assets; the offering of additional securities; changes in management; impending bankruptcy or financial liquidity problems; or other events that could impact the value of the Company's securities An employee involved in insider trading (that is, purchasing or selling any Progress Energy securities as a result of inside information) has violated the securities laws and may be subject to criminal sanctions or civil penalties.

QUESTIONS AND ANSWERS

Q. I am a financial professional and often talk about business with my spouse That's not a problem, is it? I only occasionally reveal nonpublic information and my spouse knows not to tell anyone else

A. This is a problem that could be costly for both you and Progress Energy If your spouse were ever to use material nonpublic information given by you to buy or sell securities, both of you could be prosecuted for illegal insider trading. Under no circumstances should you ever give any nonpublic information to your spouse or anyone else

Q. A co-worker gave me some nonpublic information about Progress Energy. I didn't ask for it, but now that I have it, what should I do?

A. Do not study or make copies of the material and immediately contact the Legal Department or the Progress Energy Ethics Line at 1.866.838.4427 and forward the information to them The Legal Department will provide further guidance on how to respond If you receive this type of information verbally, tell the co-worker that the discussion violates Progress Energy's policy and must stop immediately

Q. While checking stock quotes, I noticed that someone identifying himself as a Progress Energy nuclear worker had posted confidential information about the schedule for upcoming outages. Isn't this "nonpublic" information?

A. Information regarding outage schedules is confidential, nonpublic information You should report the posting immediately to your supervisor, Human Resources representative, a member of the Ethics Program staff or the Ethics Line, 1.866.838.4427

Marketing, Sales Practices and Supply Chain

All employees who interact with customers and competitors must take care to avoid antitrust violations, especially those employees with pricing authority or knowledge. Employees should endeavor to deal fairly with the Company's customers, suppliers, competitors and other employees.

YOUR RESPONSIBILITY

Antitrust laws promote fair competition among businesses. Activities that restrict free competition or allow a Company or group of companies to dominate a market may violate federal and state antitrust laws.

The highest standards of personal conduct and business ethics are expected of employees involved in the procurement of equipment, supplies and services and other employees who might influence procurement decisions or relationships. These employees must avoid conduct that could create a conflict of interest or the appearance of a conflict of interest with vendors, contractors, consultants or suppliers. Maintaining an arm's-length relationship is required in matters involving procurement For further guidance, refer to the section on "Conflict of Interest."

Employees should not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair-dealing practice

When possible, the Company makes discounts from suppliers or other companies available to employees, but no one should use the Company name to obtain personal discounts or other benefits not available to all employees.

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Marketing, Sales Practices and Supply Chain

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QUESTIONS AND ANSWERS

Q. What types of behavior could be considered anti-competitive and a violation of antitrust laws?

A. The following behavior could be considered anti-competitive and a violation of antitrust laws

- Any discussions or agreements with a competitor regarding pricing, territories, market share or intent to bid (or not bid) for particular business.
- Providing different information about a request for quotation/proposal to competing bidders
- Entering into an exclusive dealing arrangement or understanding where you agree to work only with certain suppliers or distributors in a particular market where Progress Energy has market power.
- Taking advantage of market power to eliminate or threaten a competitor or potential competitor in that or another market
- Suggesting that a product or commodity must be resold at or within a particular price or range of prices.
- Participating in actions by any trade association or other industry group regarding membership restrictions, sharing information (including benchmarking) or desired governmental actions. Participating in such actions could be anti-competitive and should be done only under the proper guidelines

Q. I have recently been promoted to a position where I receive and review proposals from competing bidders on projects. Is it OK to discuss the bidding information of one company with another vendor who I know is not bidding on the project?

A. No. You should not discuss the bidding process with the vendor. Any discussions or agreements with a competitor regarding pricing, territories, market share or intent to bid (or not bid) for particular business is strictly prohibited.

Health and Safety

Employees are responsible for the prevention of accidents to themselves, co-workers and the public and are required to comply with Company safety rules set forth in the Company's safety manual.

YOUR RESPONSIBILITY

Progress Energy is committed to protecting the health and safety of its employees and to complying with federal, state and local health and safety laws and regulations. Employees are also responsible for correcting their fellow employees when unsafe acts or hazardous conditions are observed and informing their supervisors if the unsafe act or hazardous condition continues. If a work-related injury or illness does occur, Progress Energy will comply with federal, state and local health and safety laws and regulations as they pertain to reporting the work-related injury or illness.

QUESTIONS AND ANSWERS

Q. We have been hearing a lot about "active caring." What is it and why is it important?

A. Active caring means to watch out for others. Let them know if you see something that is unsafe or if they are doing something that is unsafe. Be willing to accept advice, too. Safety is everyone's responsibility.

Q. I know we are supposed to report injuries, job-related illnesses and accidents, but our workgroup's performance award depends on our incident rate going down. What does the Company really want?

A. You should always report job-related injuries, illnesses and accidents. Business or personal goals are not designed to compromise employee safety, which is one of the Company's highest priorities. Progress Energy's goal is to eliminate injuries and accidents, and employee reporting can help determine the steps necessary to prevent future problems or accidents.

Q. Sometimes I feel pressured to shortcut safety procedures to complete projects on time. What should I do?

A. Do not skip the safety procedures. No matter who asks you to do something, you should not violate applicable safety rules for any reason. If you feel pressure to do so, you should discuss it with your supervisor or your workgroup's Health and Safety representative. If you do not feel comfortable speaking with your supervisor, contact your next level of management.

Q. I know we are supposed to report injuries, job-related illnesses and accidents, but sometimes I think my symptoms are too minor to report. Is reporting really important?

A. Information can be vital to prevention. Reporting accidents, as well as any job-related illnesses or injuries, can help determine the steps necessary to prevent future problems or accidents. Report all near-misses, injuries, job-related illnesses and accidents to your supervisor or Health and Safety representative.

Environmental Practices

Progress Energy is committed to conducting its business in an environmentally responsible manner.

YOUR RESPONSIBILITY

Environmental responsibility is a core value of Progress Energy This includes complying with environmental laws and regulations and working to prevent damage to the environment. Employees should understand the regulatory requirements applicable to their operation or job function. Additionally, employees should give careful attention to the proper handling, treatment and disposal of wastes.

QUESTIONS AND ANSWERS

Q. Environmental laws can be complicated; sometimes it's difficult to know when to be concerned about a particular situation What do I need to remember?

A. Some laws and regulations are complex, but you don't need to understand every detail before you report an environmental concern If you are unsure, ask your supervisor or your workgroup's technical environmental support organization

Drugs and Alcohol

Employees shall not be under the influence of alcohol or use, distribute, manufacture, dispense, possess or sell illegal drugs or other controlled substances, including prescription medication prescribed to others, while on the job or during work hours, including meal breaks.

YOUR RESPONSIBILITY

Employees share in the responsibility for keeping the workplace free of alcohol and illegal drugs and are responsible for reporting an observed violation of this policy

Use, distribution, manufacture, dispensation, possession and sale of illegal drugs or other controlled substances, including prescription medication prescribed to others, and the use of alcohol by an employee outside of the workplace, that may adversely affect the employee's job performance or that may reflect unfavorably upon public or governmental confidence in the manner in which the Company carries out its responsibilities, are prohibited.

Employees may consume alcohol at Company-sponsored events if management has authorized alcohol consumption in advance and the employee's consumption would not create a health and safety risk for the employee or others Employees who behave inappropriately due to alcohol consumption at a Company-sponsored event will be disciplined

If there is a Company-sponsored event where alcohol is being served to employees and/or customers, a management team member of the organization sponsoring the event must be on site to ensure compliance with Company policies and event rules

QUESTIONS AND ANSWERS

Q. One of my co-workers just returned from lunch and appears to be under the influence of drugs or alcohol What should I do?

A. It is against Company policy to drink during work hours or appear at work under the influence While it may be that this person is suffering from an illness rather than alcohol or drugs, you should notify your supervisor or Human Resources representative immediately per the Company's Drugs, Alcohol and Safe Work Policy, HRI-SUBS-00330

Q. Does this policy apply whenever I'm on Company premises? For example, if I'm not formally scheduled to be at work but come in to do some work after hours, attend a special meeting or take care of necessary administrative actions, does this policy still apply?

A. Yes The primary purpose of this policy is to contribute to creating a safe work environment at all times Impairment can lead to a safety incident at any time, not just when one is formally scheduled to be at work

Q. Can I be disciplined for using illegal drugs if I do not use them while I am working?

A. Yes Many narcotic substances remain in your system long after ingestion impairing your judgment and resulting in positive test results Moreover, the public may lose confidence in the Company when one of its employees is engaged in unlawful activity that could endanger the health and safety of the public

Use of Company Information Systems and Technology Assets

Information systems and associated technology assets are provided to employees for the purpose of performing their job responsibilities. As valuable Company resources, these tools may at any time be inspected, searched, retrieved, copied, monitored for misuse or restricted. Employees also are responsible for the resources' proper use and protection. Incidental personal use is acceptable if it does not interfere with Company business or violate applicable laws, licenses, policies, standards or procedures.

YOUR RESPONSIBILITY

Every employee is responsible for protecting information systems and associated technology assets against misuse, loss and theft. This includes:

- Following all Company policies, standards and procedures related to information systems and associated technology assets.
- Talking to your supervisor or contacting the Technology Service Desk (VoiceNet 230 5111 or 1.866.230.5111), if uncertain regarding the proper use or protection of information systems or associated technology assets. Nuclear Generation Group (NGG) employees should contact the NGG Help Desk (VoiceNet 770 2050 or 919.546.2050).
- Being accountable for the actions you take with information systems and associated technology assets.

Employees also must follow corporate policies, including, but not limited to, the Information User – Cyber Security Policy, ITS-HOCO-00001, for securing associated technology assets including, but not limited to, laptops, USB Flash drives, external hard drives, removable media, personal digital assistants (e.g., iPAQ) and Smartphones (e.g., a Blackberry). Use of these assets must be in accordance with all applicable laws, licenses and Company policies and standards.

ELECTRONIC COMMUNICATIONS

Electronic communications are a form of corporate data that must be effectively safeguarded. Examples include but are not limited to e-mail, Internet, instant messaging and blogs. Every employee has a responsibility to use electronic communications professionally, ethically and lawfully.

Sending, copying or accessing discriminatory, harassing or sexually oriented information or information conflicting with Progress Energy's diversity and inclusion program is strictly prohibited. Employees should not send, distribute, download or upload electronic files in violation of copyright, patent, trademark or other intellectual property rights. This includes distribution of pictures, music, movies or other multimedia files.

Electronic communication or posting of PGN Protected Information, as defined in ITS-HOCO-00001, can only be performed in accordance with approved business requirements. Electronic communication of PGN Protected Information to third parties to conduct required business activities must be transmitted in a secured manner

QUESTIONS AND ANSWERS

Q. Can I install software that is not an authorized Company standard?

A. No. *All software products on corporate computers must be approved for Company use* Copying software from a home computer or mobile storage device and downloading software from the Internet (including "freeware") are not allowed, nor should you ever use a software product in *violation of its licensing agreement.* If you have questions about Company-approved software, contact the Technology Service Desk (VoiceNet 230.5111 or 1.866.230.5111) NGG employees should contact the NGG Help Desk (VoiceNet 770.2050 or 919.546.2050).

Q. What is PGN Protected Information?

A. PGN Protected Information includes sensitive personally identifiable information (e g , Social Security numbers, credit card numbers, bank account numbers, etc.), HIPAA-protected health information, any information requiring special protective controls by NERC CIP 002-009, or PGN proprietary and trade secret information Also, information considered confidential as determined by business units (e g , IP addresses, network diagrams, contracts, legal documents, plant status) is included. (Consult Information User-Cyber Security Policy ITS-HOCO-00001.)

Q. I read some information on an Internet blog recently that contained what I thought was confidential information about the Company Isn't the individual responsible for the postings violating the COE?

A. *The individual may have violated the* Code of Ethics. The Company's Social Media Policy, HRI-SUBS-00355, clarifies that employees/contractors should not post electronically confidential or proprietary Company information internally or externally

Q. There have been several ProgressNet articles discussing the Company's efforts to monitor Internet usage to detect inappropriate activity Doesn't this violate my right to privacy?

A. All information residing on Company systems is Company property Employees and contractors can have no expectation of privacy regarding information stored or accessed on Company systems The Company can and at times does monitor all information transmitted on or from, received or accessed by, or residing on its computing system Do not seek out inappropriate material on the Internet or otherwise use Company resources in a way that violates the Code of Ethics Inappropriate content includes, but is not limited to, Internet sites that publish pornography and other adult material, promote gambling activities, advocate violence and associated guns and weapons and/or encourage hostile activity toward certain social groups defined by race, religion, sexual orientation disability, class, ethnicity, nationality, age sex or gender, or political affiliation

Confidential Information

Employees may not, at any time during or after employment with the Company, disclose, use or aid third parties in obtaining or using any PGN Protected Information except what is required to perform duties assigned by the Company.

YOUR RESPONSIBILITY

PGN Protected Information could include patents, trademarks, copyrights, trade secrets, know-how and financial results before they are released to the public, pending negotiations regarding financing or the acquisition or purchase of services, supplies, equipment or fuel; decisions, plans or forecasts that have not been authorized for public release, personal identifiable information such as Social Security numbers, driver's license numbers, names, addresses and health care information; personal computer information, corporate computer passwords, personal identification numbers or any other access credentials; records containing data on customers or employees, and attorney-client communications.

PGN Protected Information should not be disclosed to other employees who do not have an approved, business need-to-know. Electronic communication of PGN Protected Information to third parties to conduct required business activities must be transmitted in a secured manner. PGN Protected Information should not be left unsecured in hardcopy or on removable media (e.g., laptops, USB drives). Never share your corporate computer password; keeping it confidential is crucial toward protecting the Company's information systems. No one is authorized to request your password, and it is against Company policy to use another employee's computer password.

QUESTIONS AND ANSWERS

Q. I know that some of the information I work with is PGN Protected Information. Does that mean I can't talk about it with anyone, even other employees?

A. You should make every effort to maintain the confidentiality of PGN Protected Information. Discuss such information only with those who need to know for Progress Energy business purposes. If you have questions about or are unsure who has a business need to access the information, ask your supervisor for clarification.

Q. How do I send timesheets, training records, benefits information, personnel onboarding information or sensitive financial information to a third party who has an approved business need to receive such information?

A. The key here is to ensure that the information is delivered in a secure fashion. In most circumstances an encrypted e-mail or encrypted file transfer process will work. If you have questions about the encryption process contact the Technology Service Desk (VoiceNet 230.5111 or 1.866.230.5111). NGG employees should contact the NGG Help Desk (VoiceNet 770.2050 or 919.546.2050).

Q. I have heard a lot about "phishing" recently? What is it and how do I avoid it?

A. "Phishing" is the act of convincing consumers to share their user names, passwords and personal information for the purpose of committing fraud. This is usually done by the use of "spoofed" e-mails, which appear to be from legitimate sources and ask for the consumer's information directly or provide a link to a hoax website. Never share your password with anyone – not even with your manager, the Technology Service Desk or NGG Help Desk personnel.

Use of Company Resources

Employees shall not use or acquire Company resources for any purpose other than authorized Company activities.

YOUR RESPONSIBILITY

Every employee has a responsibility to protect Company resources. Except for limited incidental use permitted by management. Company assets are not to be used for personal purposes. All facilities, equipment, systems, information, office and field supplies, and employee work time are resources of the Company. Expenses properly incurred in carrying out Company business must be promptly and accurately documented. Fraud, embezzlement, theft, misappropriation of funds and willful damage to or destruction of Company resources are criminal offenses and will be treated accordingly.

It shall be a violation of the Code of Ethics, directly or indirectly, including through a subsidiary, to extend or maintain credit, to arrange for the extension of credit, or to renew an extension of credit in the form of a personal loan to or for any executive officer or director of Progress Energy or its subsidiaries.

QUESTIONS AND ANSWERS

Q. I operate a small business from home and the tools and equipment I use for my personal business are very similar to the tools and equipment I use here at Progress Energy. I am not doing the work on Company time, so would it be OK to use the Company's tools on my day off, so long as another employee does not need them?

A. No. This is an improper use of Company assets, the use of Company equipment for personal reasons is not allowed. Additionally, the type of work being performed off-duty may also be in violation of the Company's Conflict of Interest Policy.

Q. My co-worker routinely sends me offensive jokes from his Company-issued Blackberry, mostly after work hours and on the weekends. Although it's during nonbusiness hours, isn't it still a violation of the Company's use of resources policy?

A. Yes. Except for limited incidental use permitted by management. Company assets are not to be used for personal purposes. This includes after-hours and weekends. Furthermore, the employee may also be in violation of the Company's policy prohibiting harassment.

Integrity of Records and Information

Employees shall ensure all entries and transactions related to Company records and systems, including both manual and electronic, financial and nonfinancial, and any supporting information, will be recorded and reported fully, fairly, accurately, on time and in an understandable manner in compliance with applicable standards, laws and regulations. Employees shall not provide false or misleading information during any Company investigation or any investigation relating to a Company activity.

YOUR RESPONSIBILITY

Internal and external Company reports and financial statements must be prepared without omission, concealment, deception or falsification. It is strictly prohibited for any officer or director of Progress Energy or any other person acting under their direction to take any action to fraudulently influence, coerce, manipulate or mislead the Company's external auditor for the purpose of rendering the financial statements materially misleading.

The False Claims Act is a federal statute that covers fraud involving any federally funded contract or program, with the exception of tax fraud. The False Claims Act establishes liability for any person who knowingly presents or causes to be presented a false or fraudulent claim to the U.S. government for payment. Additionally, the False Claims Act contains provisions that allow employees with actual knowledge of alleged false claims to sue on behalf of the government. These individuals will be protected from retaliation (e.g., harassment, demotion and wrongful termination) as a result of the employee's lawful acts in furtherance of a false claims action.

Anyone who experiences, witnesses or has knowledge of improper recording or reporting of financial information should immediately report the incident to any of the following:

- Their immediate supervisor or the next level of management,
- Their Human Resources representative,
- A member of the Ethics Program staff, or
- The Ethics Line at 1 866 8ETHICS (1 866 838 4427).

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Integrity of Records and Information

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Reports of improper recording or reporting of financial information will be promptly investigated by Ethics Program staff The procedure for the receipt of complaints by the Progress Energy Audit and Corporate Performance Committee of the board of directors (ADM-HOCO-00004) provides additional details on reporting concerns about accounting, auditing or financial matters involving the Company

Preparing false or misleading reports or records of service or performance, or destroying records subject to a preservation hold, is as serious as falsifying vouchers, financial data or records pertaining to Company funds or property. All records must be retained per established retention schedules based on applicable government regulations, industry standards and sound business practices Direction from the Legal Department regarding document preservation must be followed.

Retaliation against employees who report improper recording or reporting of financial information violates the law and Company policy. Such retaliation is prohibited and will not be tolerated

QUESTIONS AND ANSWERS

Q. I think my co-worker is documenting overtime on her timesheet but is not working those hours What should I do?

A. Accurate time reporting is necessary to calculate and issue pay to employees and provide a basis for charging the wages paid to the appropriate accounts Because your manager/supervisor is accountable for time entry approval, it is important that you notify him/her of your suspicions. If you are not comfortable going to your supervisor/manager, contact the next level of management in your workgroup, your Human Resources representative or the Ethics Line at 1 866 8ETHICS (1 866 838 4427)

Q. I injured my lower back while doing yard work at my home and now I can't perform the tasks necessary to do my job. Should I file a workers' compensation claim with the Company?

A. HRI-SUBS-00051 describes Workers' Compensation as a benefit available to an employee injured during the course and scope of employment. Work-related injuries that require more medical attention than just first aid should be reported

Q. Our workgroup is in danger of not meeting our safety goals I don't want to be the person who makes us miss our ECIP goal, but I was just in a collision in my work vehicle. The damage to my vehicle is barely noticeable Should I report the accident?

A. Yes As an employee it is your responsibility to promptly report vehicle events to your supervisor, assist your supervisor in investigations, assist your supervisor in completing required documentation and provide accurate information to support any investigation as described in the Company's Vehicle Event Classification guidance SAF-SUBS-00211

Q. I received an e-mail from the Legal Department directing me to forward all documentation I have related to an inspection program I administer in connection with a lawsuit filed against the Company. I have not had a chance to clean out my computer files for the past few years; should I do so before responding to the Legal Department request?

A. No. Once the Company is on notice of anticipated or actual litigation, it must preserve all documentation in existence, including information stored electronically, that it reasonably believes may be related to the claim. Once you have received a preservation notice, you should contact the Legal Department before destroying any documentation that may be related to the subject of the lawsuit.

Q. What are some examples of fraud that would be covered under the False Claims Act?

A. Examples of fraud that could be prosecuted under the False Claims Act would be billing for goods and services that were never delivered or rendered, submitting false service records in order to show better-than-actual performance, being overpaid by the government for sale of a good or service and then not reporting that overpayment, and winning a contract through kickbacks or bribes

Relations with Government and Political Activity

The Company's policy is to comply with applicable laws and regulations governing political activity.

YOUR RESPONSIBILITY

The Company strives to comply with federal, state and local laws and regulations Respecting the responsibilities of governmental agencies and cooperating with them in good faith as they execute established guidelines and policies is essential Payments, gifts, promises of employment or other forms of compensation to government officials for the purpose of influencing a decision or obtaining business, either directly or through a third party, are prohibited

Federal funds may not be used to influence or attempt to influence any member or employee of a member of the executive or legislative branches of government (including an officer or employee or any agency) for the purpose of securing a federal grant, loan, contract or cooperative agreement or an extension, renewal or modification of any of these

Employees shall not provide anything of value to any local, state or federal elected or appointed official or government employee unless the employee's department head has confirmed that the item of value complies with all laws or regulations that limit or prohibit such gifts or require the gifts to be reported

Employees are encouraged to participate in the electoral process through voting, contributing personal funds and time or other appropriate means At no time, however, will contributions to any political party, candidate or issue be considered a condition of employment or advancement within the Company

An employee is permitted to hold public office as long as it does not interfere with the performance of his or her job or put the employee or the Company in a situation that could give rise to a conflict of interest. An employee who is a prospective candidate for public office should discuss plans to qualify for or accept appointments to public office with his or her supervisor or department head in order to resolve possible conflicts.

QUESTIONS AND ANSWERS

Q. My workgroup plans to host a reception at an upcoming golf tournament We plan to invite some state and local elected officials Is that OK?

A. You should not invite these individuals unless your organization's department head or the External Relations Department has confirmed that the items of value – in this case the reception and the ticket to the tournament – comply with all laws and regulations that limit or prohibit such gifts or require the gifts to be reported

Q. What sort of activities cannot be paid for with federal funds?

A. In general, you can't use money from the government to try to persuade the government to give additional money, extend a grant or to give additional grants For example, charging travel expenses to a federal award or drawing salary from a federal award, while attempting to influence the award of federal funds for a specific program, is defined as lobbying and is prohibited Urging the public to participate in rallies marches, telephone or letter writing campaigns aimed at legislation is also forbidden

Retaliation

The Company prohibits retaliation against individuals who oppose Code of Ethics violations or in good faith report suspected Code of Ethics violations or otherwise participate in the ethics investigation process.

YOUR RESPONSIBILITY

Employees, contractors and board members must not retaliate against an individual who speaks out regarding Code of Ethics violations, in good faith reports suspected misconduct to the Corporate Ethics Program or who in good faith provides testimony or other evidence during the course of an investigation. Such retaliation is prohibited and will not be tolerated. The Company will take disciplinary action, up to and including termination of employment, against any employee, contractor or board member involved in retaliatory conduct

QUESTIONS AND ANSWERS

Q. An employee I supervise called the Ethics Line and complained that a co-worker was falsifying her expense reports. I would have preferred to handle this myself and not have it reported to the Ethics Program. I want to let the employee know I do not appreciate his calling the Ethics Line and that he should check with me before calling the Ethics Line in the future. I recently assigned this employee to a special project, but after all the fuss he caused, I am compelled to remove him and assign someone else.

A. The Code of Ethics provides multiple avenues for reporting suspected Code of Ethics violations to the Company. Employees may use any or all of the methods and are not required to notify their management before contacting the Ethics Line. Denying an employee the opportunity to work on a special project because he or she made a report to the Ethics Program is a form of retaliation.

Q. A person on my team complained that she was being harassed by another employee in our group. Now the employee who was investigated is saying derogatory things about the person who complained and is insisting that we should all refuse to have lunch with her. What should I do?

A. Employees have the right to report perceived harassment without fear of reprisals or retaliation. Your co-worker's actions are a form of retaliation and you should alert your supervisor or one of the other parties identified in the corporate Harassment Policy, HRI-SUBS-00315.

Q. Two weeks ago I called the Ethics Line to report that my manager spends excessive amounts for meals and travel she charges to the Company. I heard a rumor that the Ethics Program substantiated my complaint and that, as a result, my manager was given a Memorandum of Understanding. Today my manager put me on a performance improvement plan directing me to focus more on my job assignments and less on what others in my workgroup are doing. I believe the performance plan is retaliation for the report I made to the Ethics Line; what should I do?

A. The Code of Ethics prohibits retaliation against employees who in good faith report suspected misconduct to the Ethics Program. You should report your concern to a member of the Ethics Program staff, a Human Resources representative or to the Progress Energy Ethics Line. Be aware, however, that making a report to the Ethics Line does not relieve you from meeting the performance requirements of your job. If your performance warrants a performance improvement plan, the fact that you were placed on a performance plan is unlikely to be found retaliatory.

To report a Code of Ethics concern or ask an ethics-related question:

- Notify your immediate supervisor or next level of management
- Contact your Human Resources representative
- Call the 24-hr Ethics Line 1.866.8ETHICS (reports may be anonymous)
- Send your submission in writing to: Ethics Line, P.O. Box 1348, Raleigh, NC 27602

The Code of Ethics prohibits retaliation against employees who in good faith report suspected misconduct to the Ethics Program

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Progress Energy

Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-013

REQUEST:

~~Refer to page 7, lines 11-15 of the Johnson Testimony.~~

a. When was the Continuous Business Excellence program initiated?

b. Describe how Progress's actual efficiency and productivity gains have compared each year to its goal of gains of 3 to 5 percent annually.

c. Explain whether Duke Energy currently has a program similar to the Continuous Business Excellence program of Progress.

RESPONSE:

a. 3rd Quarter of 2008

b. Progress Energy's adjusted non-fuel O&M grew at 2.8% from 2009 to 2010. We believe that disciplined cost management was a result of our Continuous Business Excellence program.

c. No.

PERSON RESPONSIBLE: (a,b) William D. Johnson
(c) AR Mullinax

Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-014

REQUEST:

Refer to page 18-27 of the Johnson Testimony, which identify (1) the individuals that will make up the executive management team of Duke Energy after the proposed merger is consummated and (2) the specific positions in which they will serve. Provide the names and backgrounds of the individuals currently serving in those same positions. or most comparable positions, for Duke Energy.

RESPONSE:

Duke Energy Corporation's current executive management is as follows:

James E. Rogers - Chairman, President and Chief Executive Officer

Roberta B. Bowman- Senior Vice President and Chief Sustainability Officer

Jeffery G. Browning-Senior Vice President – Audit Services and Chief Ethics and Compliance Officer

Brett C. Carter- President – Duke Energy North Carolina

Swati V. Daji-Vice President – Global Risk Management and Insurance and Chief Risk Officer

Stephen G. De May-Senior Vice President – Investor Relations and Treasurer

Douglas F Esamann-President – Duke Energy Indiana

Lynn J. Good-Group Executive and Chief Financial Officer

Catherine E. Heigel-President – Duke Energy South Carolina

Dhiaa M. Jamil-Group Executive, Chief Generation Officer and Chief Nuclear Officer

Julie S Janson- President – Duke Energy Ohio and Duke Energy Kentucky

Virginia S. Mackin-Senior Vice President and Chief Communications Officer

Gianna M. Manes-Senior Vice President and Chief Customer Officer

Marc E Manly- Group Executive, Chief Legal Officer and Corporate Secretary

David W. Mohler- Senior Vice President and Chief Technology Officer

Ronald R. Reising-Senior Vice President and Chief Procurement Officer

B. Keith Trent-Group Executive and President – Commercial Businesses

Jennifer L. Weber-Group Executive – Human Resources and Corporate Relations

Steven K. Young-Senior Vice President and Controller

Please see Attachment Staff DR-01-14 for biographical information for each executive.

PERSON RESPONSIBLE: James E Rogers

James E. Rogers
Chairman, President and Chief Executive Officer

Jim Rogers is chairman of the board, president and chief executive officer of Duke Energy.

Rogers has more than 22 years of experience as a chief executive officer in the electric utility industry. He was named president and chief executive officer of Duke Energy following the merger of Duke Energy and Cinergy in April 2006. Before the merger, Rogers served as Cinergy's chairman and chief executive officer for more than 11 years. Prior to the formation of Cinergy, he joined PSI Energy in 1988 as the company's chairman, president and chief executive officer.

Rogers has served as deputy general counsel for litigation and enforcement for the Federal Energy Regulatory Commission (FERC); executive vice president of interstate pipelines for the Enron Gas Pipeline Group; and as a partner in the Washington, D.C., office of Akin, Gump, Strauss, Hauer & Feld. Prior to those appointments, he served as assistant to the chief trial counsel at FERC; as a law clerk for the Supreme Court of Kentucky; and as assistant attorney general for the Commonwealth of Kentucky, where he acted as intervener on behalf of state consumers in gas, electric and telephone rate cases. He was also a reporter for the Lexington (Kentucky) Herald-Leader.

In the course of his career, Rogers has served more than 60 cumulative years on the boards of Fortune 500 companies. He is currently a director of Cigna Corp. and Applied Materials Inc. He has also served as a director of Duke Realty Corporation, Cinergy Corp., PSI Energy, Bankers Life Holding Corporation, Irkutskenergo AO, Indiana National Bank and Fifth Third Bancorp. In 2010, NACD Directorship, the magazine of the National Association of Corporate Directors, named Rogers to its annual Directorship 100 list, which recognizes the most influential people in corporate governance.

Rogers is past chairman of the Edison Electric Institute and is currently an ex officio member of the Executive Committee. He is chairman of the Institute for Electric Efficiency. He serves as a member of the board of directors and the Executive Committee of the Nuclear Energy Institute, and is a board member of the Institute of Nuclear Power Operations and the World Association of Nuclear Operators (WANO). Rogers is also a member of the Business Council and serves on the boards of the Business Roundtable, the National Coal Council, the National Petroleum Council and the Nicholas Institute for Environmental Policy Solutions.

Rogers is a board member of the Alliance to Save Energy, having served as co-chair, and is past co-chair of the National Action Plan for Energy Efficiency. He serves as a member of the board of directors and vice chairman of the Executive Committee of the World Business Council for Sustainable Development. He is a lifetime member of the Council on Foreign Relations and a member of the Honorary Committee of the Joint U.S.-China Collaboration on Clean Energy (JUCCCE) and the Club of Madrid President's Circle. Rogers also serves on an advisory board for the Aspen Institute's Business and Society Program and is past chairman of the Edison Foundation. He has testified 22 times on energy, environmental and other policy matters before congressional committees.

In 2010, the World Affairs Council of Charlotte honored Rogers with its World Citizen Award for his efforts to raise the profile of both Duke Energy and Charlotte on the international stage.

In 2009, Rogers was honored with EnergyBiz magazine's CEO of the Year EnergyBiz KITE Award (Knowledge, Innovation, Technology, Excellence). He was inducted into the inaugural Energy Efficiency Forum Hall of Fame by the U.S. Energy Association and Johnson Controls Inc. Rogers was also named 2009 Citizen of the Carolinas by the Charlotte Chamber of Commerce. In 2007, he was named the energy industry's CEO of the Year by Platts and Business Person of the Year by the Charlotte Business Journal.

Over the past several years, Rogers has published numerous articles and spoken to more than 20 universities and colleges across the country on energy and environmental issues. He also serves on a variety of civic boards, including the Foundation For the Carolinas and co-chairing an Arts & Science Council (ASC) initiative to enrich cultural resources in the Charlotte area.

Rogers attended Emory University and earned a bachelor of business administration and a juris doctor degree from the University of Kentucky, where he was a member of the Kentucky Law Journal and Beta Gamma Sigma National Honor Society. He was named to the Hall of Fame at the Carol Martin Gatton College of Business and Economics and the Hall of Fame of the College of Law, both of the University of Kentucky. He was also inducted into the University of Kentucky's 2010 Hall of Distinguished Alumni.

Also, Rogers has been honored with various awards and recognition: The Jan. 5, 2009, edition of Newsweek named Rogers to **The Global Elite** list, "The 50 Most Powerful People in the World," saying "The CEO of Duke Energy could make dreams of renewable power a reality." He received the 1996 Energy Daily Corporate Leadership Award; the 1998 Hebrew Union College Cincinnati Associates Tribute Honoree; the 2004 National Conference for Community and Justice (NCCJ) Distinguished Service Citation; the 2005 Keystone Center Leadership in Industry Award; the 2005 Ronald McDonald House Lifetime Achievement Award; the 2006 Human Relations Award from the American Jewish Committee, Cincinnati Chapter; and the 2007 Ellis Island Medal of Honor. Rogers has also received an honorary doctor of law degree from Indiana State University, an honorary doctor of business administration degree from Marian College in Indianapolis, Ind., and an honorary doctor of humane letters degree from Queens University of Charlotte.

The Birmingham, Ala., native was born in 1947. Rogers and his wife, Mary Anne, have two daughters, a son and eight grandchildren.

Duke Energy, one of the largest power companies in the United States, supplies and delivers electricity to approximately 4 million customers in the Carolinas and the Midwest. The company also distributes natural gas in Ohio and Kentucky. Its commercial power and international businesses operate diverse power generation assets in North America and Latin America, including a growing renewable energy portfolio. Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol DUK.

December 6, 2010

Our Perspective

Download publishing-quality photo of Jim Rogers (jpg, 2103 KB)

Download Jim Rogers bio (pdf, 78 KB)

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Duke Energy

Investors

Roberta B. Bowman
Senior Vice President and Chief Sustainability Officer

Roberta Bowman has served as senior vice president and chief sustainability officer for Duke Energy since 2008. She is responsible for the company's integrated strategy to operate in a way that is good for people, the planet and profits. She serves in the office of the chairman to represent the company to key stakeholders and works with a number of national, international and industry groups to advance issues important to Duke Energy.

Bowman has over 30 years of experience in the energy industry.

She joined Duke Power in 1986 as director of power plant community relations. After a series of promotions including general manager of public issues in 1993, general manager of communications and community relations in 1994 and manager of bulk power marketing in 1995, she was named vice president of communications and community relations in 1996. She served as the company's chief communications officer for 10 years, and was appointed senior vice president of public affairs in January 2001. In that role, she led the corporation's communications, public affairs and community relations functions, including The Duke Energy Foundation. Following the merger with Cinergy in 2006, she was named the company's first corporate officer in sustainability as vice president of sustainability and community affairs. During her career, Bowman has also had responsibility for public policy; government and regulatory relations; and environment, health and safety.

Prior to joining the company, Bowman worked at Northeast Utilities in Hartford, Conn., from 1978 to 1986. She served as manager of nuclear information.

A native of West Hartford, Conn., Bowman graduated with distinction from Tufts University in Medford, Mass., with a bachelor of arts degree.

Involved in a number of community and professional activities, Bowman currently serves on the board of trustees for Blue Cross and Blue Shield of North Carolina, the state's largest health insurer. She is a member of the board of visitors for the Duke University Nicholas School of the Environment, the Sustainability Advisory Council for Ingersoll Rand and the Water Advisory Board for ITT. Bowman was also named to the 2011 Selection Committee for the Zayed Future Energy Prize, the government of Abu Dhabi's international award to encourage innovation in renewable energy, energy conservation and sustainability.

Bowman serves on an advisory group for the Foundation For The Carolinas and an advisory board for The North Carolina Conference for Women. She is a member of both Women Corporate Directors and Women Executives. She co-chaired the Executive Committee of the 2007 U.S. Women's Open and raised charitable funds to benefit a number of North Carolina nonprofits important to women's health and leadership. Bowman has also served on the boards of directors of the Public Affairs Council, Afro-American Cultural Center and Communications Council of the United Way.

In 2007, Bowman was inducted into the North Carolina Public Relations Hall of Fame. Sponsored by the University of North Carolina at Chapel Hill School of Journalism and Mass Communication, the PR Hall of Fame "recognizes individuals who have made exceptionally distinguished and career-long contributions to the field and who are strongly associated with the state of North Carolina."

Bowman was born in 1955. She is married to Andrew Bowman of Binghamton, N.Y.

Duke Energy, one of the largest power companies in the United States, supplies and delivers electricity to approximately 4 million customers in the Carolinas and the Midwest. The company also distributes natural gas in Ohio and Kentucky. Its commercial power and international businesses operate diverse power generation assets in North America and Latin America, including a growing renewable energy portfolio. Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol DUK.

Duke Energy

Investors

Jeffery G. Browning
Senior Vice President – Audit Services and Chief Ethics and Compliance Officer

Jeff Browning is senior vice president of audit services and chief ethics and compliance officer for Duke Energy. He serves as the chief audit executive and provides executive oversight for the Duke Energy internal audit function. Browning is responsible for establishing the audit function's strategic direction, ensuring the execution of a risk-based audit approach, attracting and developing exceptional professional talent, and serving as the function's interface with the Audit Committee and executive management.

In his role as chief ethics and compliance officer, Browning directs Duke Energy's compliance program, which provides oversight, tracking, and management of the organization's compliance with laws, regulations and business conduct standards.

Browning worked for Duke Energy from 2001 to 2004 and rejoined the company in 2005. He has held various positions in the financial services industry, including vice president of audit services for Genworth Financial and audit director for Transamerica Corporation. He also served as director of management assurance services for KPMG.

Browning received a bachelor of science degree in business administration, with an accounting concentration, from the Indiana University School of Business and earned a master of business administration degree from the University of Notre Dame Graduate School of Business. He also completed the Advanced Management Program at the Harvard Business School. Browning is a certified public accountant and certified internal auditor.

Browning is past chairman of the board of governors for the Charlotte chapter of the Institute of Internal Auditors (IIA) and is also a member of the IIA's professional conferences committee. An active member of the community, he has served in a volunteer capacity with the United Way of Central Carolinas, the Arts & Science Council and the American Cancer Society. He is a graduate of the Charlotte Arts & Science Council Cultural Leadership Training Program and currently serves on the board of directors and Executive Committee for the Children's Theatre of Charlotte.

Duke Energy, one of the largest power companies in the United States, supplies and delivers electricity to approximately 4 million customers in the Carolinas and the Midwest. The company also distributes natural gas in Ohio and Kentucky. Its commercial power and international businesses operate diverse power generation assets in North America and Latin America, including a growing renewable energy portfolio. Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol DUK.

May 12, 2010

Our Perspective

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Investors

Brett C. Carter
President – Duke Energy North Carolina

Brett Carter is president of Duke Energy North Carolina, serving approximately 1.8 million electric retail customers in the central and western portions of the state. He is responsible for advancing the company's rate and regulatory initiatives and managing state and local regulatory and governmental relations, economic development and community affairs.

Having served as president of Duke Energy Carolinas since 2008, Carter took on a dedicated leadership role for the North Carolina service region in March 2010, as part of Duke Energy's strategy to sharpen its focus on the unique needs, interests and concerns of different states served by the company.

Carter has also served as senior vice president of customer service and business development for Duke Energy. In that role, he was responsible for acquiring and retaining new wholesale customers; providing sales and services to the company's existing large commercial and industrial customers; and generating and cultivating economic development opportunities. In addition, he was responsible for the customer service function.

Carter joined Duke Power in July 2005 as vice president of residential and small business customers. He was also responsible for the marketing strategy and operations of Duke Power's Customer Service Center.

Prior to joining the company, Carter served as vice president of the central services division for Aquila in Kansas City, Mo. He was responsible for Aquila's 1.4 million customers, including oversight of two call centers, information technology, customer account management, customer solutions and Six Sigma special projects.

The Pittsburgh, Pa., native earned a bachelor of science degree in accounting from Clarion University of Pennsylvania and a master of business administration degree, with a concentration in marketing, from the University of Pittsburgh. He also completed the Harvard Business School Advanced Management Program.

Carter is active in a number of community and professional activities. He is a member of the North Carolina State Ports Authority Board, the North Carolina Economic Development Board and The Executive Leadership Council (Washington, D.C.). He also serves on the board of directors of the Charlotte Regional Partnership, the North Carolina Chamber of Commerce, the Charlotte Chamber of Commerce and Mecklenburg Citizens for Public Education (MeckEd).

Carter and his wife, Rebecca, have a daughter and two sons.

Duke Energy, one of the largest power companies in the United States, supplies and delivers electricity to approximately 4 million customers in the Carolinas and the Midwest. The company also distributes natural gas in Ohio and Kentucky. Its commercial power and international businesses operate diverse power generation assets in North America and Latin America, including a growing renewable energy portfolio. Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol DUK.

May 28, 2010

Our Perspective

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Swati V. Daji
Vice President – Global Risk Management and Insurance and Chief Risk Officer

Swati Daji is vice president, global risk management and insurance, and chief risk officer for Duke Energy. She is responsible for corporate risk management, with particular focus on the company's market and credit risks. In addition, she manages the company's insurance programs.

Daji brings diverse corporate and commercial experience to the position, including a strong background in financial and risk management, and dealings with both the regulated and nonregulated parts of the business.

Previously, she served as vice president of deal structuring and contract management for Duke Energy's U.S. Franchised Electric and Gas organization. She was responsible for the structuring, analytics and administration of wholesale contracts, regulated fuel management and bulk power marketing.

Daji joined the company in 1991 as a financial analyst for Duke Power. From 1998 to 2004, she held a variety of management positions with Duke Energy North America, including vice president of asset planning, valuation and analysis; managing director of finance valuation and treasury operations; and managing director of budgeting and forecasting. Between 2004 and 2006, she served as a general manager in both the treasury and corporate risk management groups for Duke Energy. She was named general manager of treasury and risk reporting, governance and compliance in 2007. Daji assumed her current position in October 2009.

Prior to joining Duke Energy, Daji was a branch manager at a local bank.

She serves on the board of directors of Charlotte Community Health Clinic, which provides acute medical care to uninsured and low-income individuals through a culturally diverse, volunteer-based organization with emphasis on education, training and community outreach. She also serves on the board of advisors of the Queens University of Charlotte McColl School of Business.

Daji holds a bachelor of science degree in accounting from the University of Bombay and an MBA in finance from Clemson University.

Daji and her husband, Vijay, have two sons.

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October 12, 2010

Our Perspective

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Duke Energy

Investors

Stephen G. De May
Senior Vice President – Investor Relations and Treasurer

Stephen De May is senior vice president of investor relations and treasurer for Duke Energy. As treasurer he is responsible for financing and capital markets activities, liability management, liquidity and cash management, long-term investments and managing Duke Energy's relationships with the major credit rating agencies. As head of investor relations, he monitors trends in the investment markets and maintains key relationships with debt and equity investors, analysts and financial institutions.

Previously, he served as senior vice president, treasurer and chief risk officer.

De May joined the company in 1990 as a director of the company's real estate development business, Crescent Resources, where he had responsibility for managing the finance and accounting functions. In 1994, he joined the company's corporate finance group, and in 1996, completed an extended risk management assignment at the company's energy trading and marketing affiliate. Following the merger of Duke Power and PanEnergy, De May managed the corporate finance group until June 1999, at which time he was appointed vice president of business unit finance. During 2004 and 2005, he served as vice president of energy and environmental policy, with responsibility for achieving the company's public policy objectives related to key energy and environmental issues. Following the merger between Duke Energy and Cinergy in April 2006, he served as general manager, corporate finance and assistant treasurer for the company. In 2007, De May was named vice president and treasurer for Duke Energy, which included oversight of the risk management function. He was named senior vice president, treasurer and chief risk officer in February 2009.

Before joining Duke Energy, De May served as senior tax consultant for Deloitte & Touche and tax consultant for Price Waterhouse.

De May graduated from the University of North Carolina at Chapel Hill with a bachelor of arts degree in political science and a master of business administration degree from the McColl Graduate School of Business at Queens University of Charlotte. In 2010, he completed the Advanced Management Program at the Wharton School of the University of Pennsylvania. He is a certified public accountant in North Carolina.

De May sits on the board of trustees for Providence Day School and the board of directors for the University of North Carolina at Chapel Hill's Friends of the Library. He is also a member of the Management Committee of ADAGE^{tm} LLC, an AREVA/Duke Energy advanced biopower company.

A native of Long Island, N.Y., De May was born in 1962. He and his wife, Linda, have three children.

Duke Energy, one of the largest power companies in the United States, supplies and delivers electricity to approximately 4 million customers in the Carolinas and the Midwest. The company also distributes natural gas in Ohio and Kentucky. Its commercial power and international businesses operate diverse power generation assets in North America and Latin America, including a growing renewable energy portfolio. Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol DUK.

July 19, 2010

Our Perspective

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Duke Energy

Investors

Douglas F Esamann
President – Duke Energy Indiana

Doug Esamann is president of Duke Energy Indiana, the state's largest electric utility, serving approximately 790,000 customers in 69 of Indiana's 92 counties. He is responsible for Duke Energy's regulatory, governmental relations, economic development and community affairs work in Indiana. He was named to his current position in November 2010.

Previously, Esamann served as senior vice president of corporate strategy for Duke Energy, a position he held since July 2009. In that role, he led the company's strategy development and business planning efforts including load forecasting and market fundamentals. Prior to that, he was senior vice president strategy and planning with additional responsibilities for integrated resource planning, environmental compliance planning, transactional support, customer market analytics, load research and renewable energy compliance efforts.

Immediately following the merger between Duke Energy and Cinergy in April 2006, Esamann served as group vice president of strategy and planning for Duke Energy's U.S. Franchised Electric and Gas organization.

Prior to the merger, he served as senior vice president of energy portfolio strategy and management for Cinergy's commercial business unit. He was responsible for fuel management, environmental risk management, generation dispatch, power purchases and sales, portfolio analytics, load forecasting, generation asset planning, demand-side management planning and environmental compliance planning.

Esamann began his employment with Public Service Indiana (predecessor of PSI Energy) in 1979. In the course of his PSI/Cinergy career, he held a variety of leadership roles, including tax manager for PSI Energy until 1994; general manager of finance and business development for Cinergy's commercial business unit until 1999; vice president and chief financial officer of the commercial business unit until 2001; and president of PSI Energy until 2004.

Esamann currently serves on the boards of directors of the Indiana Energy Association, Indiana Manufacturers Association and the Indiana Legal Foundation. He is also an advisory board member of the University of Missouri Financial Research Institute.

A native of Plainfield, Ind., Esamann earned a Bachelor of Science degree in accounting from Indiana University. He and his wife, Kimberly, have two daughters, a son and one grandchild.

Duke Energy, one of the largest power companies in the United States, supplies and delivers electricity to approximately 4 million customers in the Carolinas and the Midwest. The company also distributes natural gas in Ohio and Kentucky. Its commercial power and international businesses operate diverse power generation assets in North America and Latin America, including a growing renewable energy portfolio. Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol DUK.

March 25, 2011

Our Perspective

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Duke Energy

Investors

Lynn J. Good
Group Executive and Chief Financial Officer

Lynn Good is group executive and chief financial officer for Duke Energy. She leads the financial function, which includes the controller's office, treasury, tax, risk management and insurance, as well as corporate strategy and corporate development. These duties include accounting, balance sheet management and overseeing risk control policies. She assumed her current position in July 2009.

Previously, Good served as group executive and president of Duke Energy's commercial businesses, a position she held since November 2007. She was responsible for the Midwest nonregulated generation, Duke Energy International, Duke Energy Generation Services, the telecommunications businesses, and all corporate development and merger and acquisition activities. Prior to that, Good served as senior vice president and treasurer for Duke Energy. She led the treasury functions for the company, as well as insurance, market and credit risk management and corporate financial planning and analysis.

Before the merger of Duke Energy and Cinergy in April 2006, Good served as executive vice president and chief financial officer for Cinergy. Named to that role in September 2005, she was responsible for Cinergy's treasury, finance and accounting functions.

Good joined Cinergy in May 2003 as vice president of financial project strategy. She was named vice president and controller later the same year; and vice president of finance and controller in January 2005.

Prior to joining Cinergy, Good was a partner with the international accounting firm, Deloitte & Touche, based in Cincinnati, Ohio. From 1981 to 2002, she served in various senior management roles with Arthur Andersen, rising to partner in 1992.

Good serves on the board of directors of Hubbell Inc., an international manufacturer of electrical and electronic products. She is also a board member of the Bechtler Art Museum in Charlotte.

Good earned Bachelor of Science degrees in systems analysis and accounting from Miami University in Oxford, Ohio.

Duke Energy, one of the largest power companies in the United States, supplies and delivers electricity to approximately 4 million customers in the Carolinas and the Midwest. The company also distributes natural gas in Ohio and Kentucky. Its commercial power and international businesses operate diverse power generation assets in North America and Latin America, including a growing renewable energy portfolio. Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol DUK.

March 8, 2011

Our Perspective

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Catherine E. Heigel
President – Duke Energy South Carolina

Catherine Heigel is president of Duke Energy South Carolina, serving more than 600,000 electric retail customers in the Upstate. She is responsible for advancing the company's rate and regulatory initiatives and managing state and local regulatory and governmental relations, economic development and community affairs. Heigel was named to her current position in March 2010.

Previously, Heigel served as a special advisor to Duke Energy's chairman, president and chief executive officer.

Heigel began her legal career in 1995 as a consumer advocate for the state of South Carolina in utility and insurance matters. She joined Duke Energy in 1997 as senior counsel providing legal support for Duke Engineering & Services (DE&S), a nonregulated engineering consulting services subsidiary of Duke Energy. From 2003 to 2006, she practiced law in the private sector.

In 2006, Heigel joined the state regulatory group for Duke Energy's U.S. Franchised Electric and Gas organization. In that role, she advised the company's senior management on regulatory and compliance matters. She also represented Duke Energy in a wide variety of issues before state utility commissions, including energy efficiency, new nuclear generation and general rate proceedings.

Heigel graduated magna cum laude, Phi Beta Kappa and with honors from the University of South Carolina with a Bachelor of Arts degree in international studies. She holds a Juris Doctor degree from The Ohio State University College of Law, where she was an associate editor of the Ohio State Law Journal. She also completed Duke Energy's Strategic Leadership Program at the University of North Carolina's Kenan-Flagler School of Business, Oxford University's Summer Law Programme, and a European Economic Community Studies program at the University of Amsterdam in the Netherlands. In 2010, Heigel received the Distinguished Honors Alumni Award from the Honors College at the University of South Carolina.

Heigel is admitted to the state bar associations of North Carolina, South Carolina, Georgia, Ohio and New York; and is a member of the American Bar Association. She is a member of the South Carolina Centers of Economic Excellence Review Board, the Palmetto Business Forum and the University of South Carolina President's Initiative Committee. She serves on the board of the South Carolina Manufacturers Alliance, Meals on Wheels of Greenville County and is an incoming board member of the Greenville Symphony Orchestra. Heigel is also a 2010 recipient of the James B. Duke Award, Duke Energy's highest employee award for service to the company and community.

A native of Darlington, S.C., Heigel and her husband, Jonathan, have two daughters and a son.

Duke Energy, one of the largest power companies in the United States, supplies and delivers electricity to approximately 4 million customers in the Carolinas and the Midwest. The company also distributes natural gas in Ohio and Kentucky. Its commercial power and international businesses operate diverse power generation assets in North America and Latin America, including a growing renewable energy portfolio. Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol DUK.

February 16, 2011

Our Perspective

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Duke Energy.

Investors

Dhiaa M. Jamil

Group Executive, Chief Generation Officer and Chief Nuclear Officer

Dhiaa Jamil is a group executive, chief generation officer and chief nuclear officer for Duke Energy. He is responsible for the safe and efficient operation of all regulated generation across the company's nuclear, fossil and hydro fleets. He assumed the expanded role of chief generation officer in July 2009.

Previously, Jamil served as group executive and chief nuclear officer, with responsibility for the company's three nuclear stations – Catawba, McGuire and Oconee.

Jamil has 30 years of experience in the energy industry. He joined Duke Power in 1981 as a design engineer in the design engineering department. After a series of promotions, he was named electrical systems engineering supervisor of Oconee Nuclear Station in 1989 and electrical systems engineering manager in 1994. He was named maintenance superintendent of McGuire Nuclear Station in 1997; station manager in 1999; and site vice president of McGuire Nuclear Station in 2002. In that role, Jamil was responsible for all aspects of the safe and efficient operation of the nuclear site. In 2003, he was named site vice president of Catawba Nuclear Station. In 2006, Jamil was named senior vice president of nuclear support. He led the organization responsible for plant support, major projects and fuel management for Duke Energy's nuclear fleet. In addition, he was responsible for regulatory support, nuclear oversight and safety analysis functions.

Jamil received a bachelor of science degree in electrical engineering from the University of North Carolina at Charlotte.

He is a registered professional engineer in North Carolina and South Carolina. He has completed the Institute of Nuclear Power Operations' (INPO) senior nuclear plant management course and received Duke Energy's technical nuclear certification. He has served as a senior member of the Institute of Electrical & Electronics Engineers (IEEE) and has completed a three-year assignment as a member of the Council of the National Academy for Nuclear Training. He is a former member of Dominion Energy Management Safety Review Advisory Committee, TVA Nuclear Safety Review Board and Pacific Gas & Electric Nuclear Safety Oversight Committee. He also served on the board of directors of the York County, S.C., Chamber of Commerce.

Jamil currently serves as chair of the Energy Production and Infrastructure Center at the University of North Carolina at Charlotte and is a board member of the UNC Charlotte Foundation. He serves as a trustee of The Duke Energy Foundation. He is also a member of the INPO Executive Advisory Group and the Nuclear Energy Institute's Nuclear Strategic Issues Advisory Committee Steering Group.

Jamil and his wife, Hope, have a daughter and two sons.

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June 24, 2010

Our Perspective

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Duke Energy.

Investors

Julie S. Janson
President – Duke Energy Ohio and Duke Energy Kentucky

Julie Janson is president of Duke Energy Ohio and Duke Energy Kentucky. She leads Duke Energy's Ohio and Kentucky operations, serving approximately 1 million gas and electric customers in southwest Ohio and approximately 230,000 customers in six northern Kentucky counties. She was named to her current position in December 2008.

Previously, Janson served as senior vice president of ethics and compliance, and corporate secretary for Duke Energy, a position she held since 2006. Prior to that, she served as corporate secretary and chief compliance officer for Cinergy Corp. She was appointed chief compliance officer in 2004 and corporate secretary in 2000.

From 1998 to 2004, Janson served as senior counsel, providing advice on general corporate, corporate governance and securities-related matters. From 1996 to 1998, Janson served as counsel for Cinergy, providing research, advice and support for divestitures, mergers and acquisitions, and several internal clients including investor relations, shareholder services, corporate communications and government and regulatory affairs. She also served as corporate counsel to the international business unit. She was manager of investor relations for Cinergy from 1995 to 1996.

Prior to joining Cinergy, Janson was corporate attorney for The Cincinnati Gas & Electric Company (CG&E), playing a role in the merger of CG&E and PSI Energy, which formed Cinergy Corp.

Before joining CG&E, she served as a law clerk with Adams, Brooking, Stepner, Wolterman & Dusing in Covington, Ky.

She earned a juris doctor degree from the University of Cincinnati College of Law. She also holds a bachelor of arts degree in American Studies from Georgetown College in Georgetown, Ky.

Janson is a member of the bar associations of Ohio and Kentucky, with legal experience that spans more than 20 years. She is a member of the DirectWomen Board Institute Class of 2011, a program designed to identify and promote accomplished female lawyers to serve on corporate boards of public companies.

Janson is active in a number of community and professional activities. She serves on the board of governors and is chair of the Cincinnati USA Partnership for Economic Development. She is a member of the boards of directors and the executive committees of the Cincinnati USA Regional Chamber, the United Way of Greater Cincinnati and the Kentucky Chamber of Commerce. She is co-chair of the United Way Regional Public Policy Council.

Janson is a member of the Cincinnati Business Committee and co-chairs the Economic Development Task Force. She is a member of the board of directors of the Northern Kentucky Tri-County Economic Development (Tri-ED) Corporation. She serves on the Climate Protection Steering Committee, appointed by the Cincinnati City Council. She is a board member of the Cincinnati Center City Development Corporation (3CDC) and the Vision 2015 Regional Stewardship Council in Northern Kentucky. She is a member of The Commercial Club and also chaired the city of Cincinnati's 2010 Fine Arts Fund Campaign.

Janson and her husband, Chip, have two daughters.

Duke Energy, one of the largest power companies in the United States, supplies and delivers electricity to approximately 4 million customers in the Carolinas and the Midwest. The company also distributes natural gas in Ohio and Kentucky. Its commercial power and international businesses operate diverse power generation assets in North America and Latin America, including a growing renewable energy portfolio. Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York

Duke Energy

Investors

Virginia S. Mackin
Senior Vice President and Chief Communications Officer

Ginny Mackin is senior vice president and chief communications officer for Duke Energy. She is responsible for directing Duke Energy's communications strategy and services, including support for the company businesses, brand management, executive communications, media relations, social media and the Web presence.

Mackin has more than 25 years of experience as a communications and business leader. Prior to joining Duke Energy in August 2010, she served as an executive vice president and director at Wells Fargo. She led the bank's eastern community bank communications after its merger with Wachovia in 2009. Prior to her role with Wells Fargo, she led Wachovia's communications as executive vice president and director of corporate communications from 2001 to 2009.

Before joining Wachovia, Mackin served 10 years at Bank of America. During this time, she held various leadership roles, including manager of media relations and CEO communications, manager of work and family programs, and manager of global finance communications. From 1982 to 1988, she held communications roles with CPC International Inc. and Bonwit Teller Stores.

A native of Upper Montclair, N.J., Mackin graduated cum laude from Boston College with bachelor of arts degrees in speech communications and philosophy.

She is a member of the board of directors of Junior Achievement of the Carolinas and a past member of Wachovia's Diversity Council.

Mackin and her husband, Pat, have a daughter.

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August 18, 2010

Our Perspective

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Duke Energy

Gianna M. Manes
Senior Vice President and Chief Customer Officer

As senior vice president and chief customer officer for Duke Energy, Manes is responsible for providing services to approximately 4 million customers in North Carolina, South Carolina, Indiana, Ohio and Kentucky. She has responsibility for call center operations, revenue services, marketing, energy efficiency and relationships with large business customers. In addition, Manes has responsibility for Duke Energy's smart grid initiative to modernize the company's power delivery system and customer interfaces through the use of advanced technology to save energy, strengthen system reliability and improve ~~customer service. She previously served as senior vice president of retail customer products and services for Duke Energy.~~

Manes joined the company in 1987 as an engineer for Texas Eastern Gas Pipeline in Houston, Texas. She has held a variety of leadership roles with increasing responsibility. Her 22 years of experience in the energy industry includes customer service, power, gas and emissions trading operations; power plant development, construction and operations; international and domestic gas and power business development and acquisitions; market analysis; and gas pipeline operations.

From 1996 until 1998, Manes led the development and construction of the first merchant power plant in the Northeast United States. She then moved to international positions and projects where she was named the director of development for Duke Energy International in 1998 and managing director of European business development in London beginning in 1999. Manes was named senior director of asset management for Duke Energy North America (DENA) in 2001 and energy generation region vice president in 2004. She served as vice president of integration for the Duke Energy-Cinergy merger in 2005. She was senior vice president of regulated portfolio optimization and fuels from 2006 through 2008. In this position, she was responsible for purchases and sales of electricity and emission products with the wholesale market and the purchase and delivery of coal and natural gas for the generation fleet.

The Louisiana native earned a bachelor of science degree in industrial engineering from Louisiana State University and a master of business administration degree from the University of Houston. She is a senior fellow with the American Leadership Forum. In addition, she is an advisor to Duke Energy's Leadership Development Network and her civic involvement includes serving on the boards of directors of Classroom Central, the Community Building Initiative and Advanced Energy.

Manes and her husband, Ted, have two sons.

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October 12, 2010

Our Perspective

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Marc E. Manly
Group Executive, Chief Legal Officer and Corporate Secretary

Marc Manly is a group executive, and the chief legal officer and corporate secretary for Duke Energy. He leads the Office of the General Counsel, which includes legal, internal audit, ethics and compliance, information technology and enterprise operations services.

Manly has served as group executive and chief legal officer for Duke Energy since April 2006. He assumed the additional responsibility of corporate secretary in December 2008. Previously, Manly served as executive vice president and chief legal officer of Cinergy Corp., a position he held from November 2002 to April 2006. He was responsible for the company's strategy and position on all legal matters.

From 2000 to 2002, Manly was managing director for law and governmental affairs, general counsel and corporate secretary at NewPower Holdings Inc., a national retailer of electricity and natural gas to the residential market. Before his position with NewPower, from 1995 to 2000, he was with AT&T Corp. first as vice president and solicitor general, and then as vice president and chief counsel for the consumer services group. Prior to joining AT&T's legal department, Manly was a member of the law firm of Sidley & Austin, as an associate from 1978 to 1985 and as a partner from 1986 to 1994.

Manly earned a Juris Doctor degree, magna cum laude, and a Master of Economics degree from the University of Michigan, where he was a member of the Law Review and Order of the Coif. He also earned a Bachelor of Arts degree, summa cum laude, in economics from Amherst College, where he was Phi Beta Kappa.

Manly and his wife, Colby Chapman, have two children.

Duke Energy, one of the largest power companies in the United States, supplies and delivers electricity to approximately 4 million customers in the Carolinas and the Midwest. The company also distributes natural gas in Ohio and Kentucky. Its commercial power and international businesses operate diverse power generation assets in North America and Latin America, including a growing renewable energy portfolio. Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol DUK.

March 10, 2011

Our Perspective

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David W. Mohler
Senior Vice President and Chief Technology Officer

David Mohler is senior vice president and chief technology officer for Duke Energy. He is responsible for the development and application of technologies in support of Duke Energy's strategic objectives. He was named to his current position in October 2006.

Previously, Mohler served as vice president of strategic planning for Duke Energy. Prior to the merger between Duke Energy and Cinergy, he served in the same role for Cinergy. Mohler has operational experience in both nuclear and fossil power generation, as well as experience in corporate marketing, human resources and business development.

He earned a Bachelor of Arts degree from Indiana University, a Bachelor of Science degree from the University of the State of New York at Albany, a Master of Arts degree from Xavier University of Cincinnati, and a Master of Science degree from the University of Pennsylvania. He also completed the Columbia University Marketing Management Program and Penn State University Executive Development Program.

Mohler is a member of the advisory boards of GridPoint Inc., Verizon Wireless and the Carnegie Mellon Electric Utility Industry Center. He serves on the Advanced Research Projects Agency—Energy (ARPA-E) "brain trust" within the Department of Energy. He is also a member of the Electric Power Research Institute's Research Advisory Committee.

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April 14, 2011

Our Perspective

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Ronald R. Reising
Senior Vice President and Chief Procurement Officer

Ronald Reising is senior vice president and chief procurement officer for Duke Energy. He was named to this role in January 2006.

Prior to that, he served as vice president and chief procurement officer for Cinergy, since 2004. He was responsible for managing Cinergy's sourcing and supply chain function on behalf of both its regulated and commercial operations.

He joined Cinergy in June 2002 as vice president of finance where he was responsible for treasury, budgets and forecasts, strategic planning and tax.

Prior to joining Cinergy, Reising held various senior management positions with Ameritech's (AT&T's) domestic and international operations, including chief financial officer of Bell Canada in Montreal and chief financial officer of MATAV in Budapest. MATAV is the leading Hungarian telecommunications company. Other positions with Ameritech included vice president of operations and business development for Ameritech Europe, vice president of finance for Telephone Industry Service, director of planning and analysis for General Business Services, and director for the corporate investment and acquisitions group.

Reising earned a Bachelor of Arts degree in economics from Lawrence University and a master's degree in management from The Kellogg School of Management at Northwestern University.

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March 8, 2011

Our Perspective

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Duke Energy

Investors

B. Keith Trent
Group Executive and President — Commercial Businesses

Keith Trent is group executive and president of the Commercial Businesses organization for Duke Energy. He is responsible for Duke Energy Generation Services; Duke Energy Renewables; Midwest Commercial Generation; Commercial Transmission; and Duke Energy International, with operations in Latin America. Trent is also responsible for commercial strategy and policy. He assumed his current role in July 2009.

Previously, Trent served as group executive and chief strategy, policy and regulatory officer for Duke Energy. He led the areas of strategy, state and federal policy and government affairs, corporate communications, community affairs, technology initiatives, and environmental health and safety policy.

Trent has more than 18 years of experience as an accomplished legal counselor. He joined Duke Energy in May 2002 as general counsel, litigation. He was responsible for managing all major litigation and government investigations for the company. Trent was named group vice president, general counsel and secretary in June 2005 and group executive and chief development officer in April 2006. In that role, he led corporate development, including corporate strategy, and mergers and acquisitions. He was named group executive and chief strategy and policy officer in September 2006.

Prior to joining Duke Energy, Trent served as a partner in the law firm Snell, Brannian & Trent, since October 1991. Prior to that, he was an attorney at Jackson Walker in Dallas, Texas. He began his career as a reservoir/production engineer with Arco Oil & Gas in Houston in January 1982.

Trent earned a Bachelor of Science degree in electrical engineering, with honors, from Southern Methodist University and a Juris Doctor degree, with high honors, from the University of Texas College of Law. He also completed the Harvard Business School Advanced Management Program and the Reactor Technology Course for Utility Executives at MIT. Trent is licensed to practice law in North Carolina and Texas, as well as numerous federal district courts and the United States Supreme Court. He is also a member of various bar associations.

Trent serves on the board of directors of Bright Automotive Inc., the board of trustees of The Keystone Center and is co-chair of The Keystone Energy Board. He serves on the board of visitors of the Wake Forest University Schools of Business and Charlotte Country Day School. He is also chairman of the New Leaders for New Schools Board in Charlotte.

A native of North Little Rock, Ark., Trent was born in 1959. He and his wife, Lucy, have two sons.

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March 24, 2011

Our Perspective

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Jennifer L. Weber

Group Executive - Human Resources and Corporate Relations

Jennifer Weber is group executive of Human Resources and Corporate Relations at Duke Energy. She leads the human resources function for the company, which includes human resources policy and strategy, talent management and diversity, employee and labor relations, total rewards strategies and programs, and delivery of business partner services.

Jennifer leads the company's corporate communications function, which includes communications strategy and services: support for the company's businesses, brand management, executive communications, media relations, social media and the Web presence. She is also responsible for The Duke Energy Foundation.

Jennifer joined Duke Energy in November 2008 from Scripps Networks Interactive Inc. in Cincinnati, Ohio. From 2005 to 2008, she served Scripps, and then Scripps Networks Interactive when the company was spun off, as senior vice president of human resources.

Prior to joining Scripps in 2005, Jennifer worked at the consulting firm Towers Perrin for 12 years – as a partner and as managing principal of the firm's Cincinnati office. In that role, she participated in the design and implementation of total rewards strategies and programs for many large clients.

A native of Mansfield, Ohio, Jennifer received a master's degree from Carnegie Mellon University. She also earned a bachelor's degree from Miami University, in Ohio, graduating Phi Beta Kappa and Cum Laude.

Jennifer currently serves on the Business Advisory Committee for the Farmer School of Business at Miami University, in Ohio, and the board of advisors for the Belk College of Business at the University of North Carolina at Charlotte. She also serves on the board of directors and is vice chair of the 2011 United Way campaign for the United Way of Central Carolinas. Prior to her relocation to Charlotte, Jennifer served on the board of the Dan Beard Boy Scout Council of Greater Cincinnati and the Salvation Army. She also participated in Leadership Cincinnati.

She and her husband, Eric, have two daughters and a son.

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February 7, 2011

Our Perspective

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Duke Energy

Investors

Steven K. Young
Senior Vice President and Controller

Steve Young is senior vice president and controller for Duke Energy. He is responsible for planning and directing the accounting affairs of the company, including preparation of financial statements and accounting and regulatory reports.

Young joined Duke Power in 1980 as a financial assistant. After a series of promotions within the controller's department, he was named manager of bulk power agreements in system planning and operating in 1991, and manager of the rate department in 1993. Young was appointed vice president of rates and regulatory affairs in April 1998, where he was responsible for Duke Power's regulatory strategies and policies in rate, financial and accounting matters. He was also accountable for the company's interaction with the utilities commissions of North Carolina and South Carolina and the Federal Energy Regulatory Commission. He was named senior vice president and chief financial officer for Duke Power in February 2003 and group vice president and chief financial officer in March 2004. He was named vice president and controller in June 2005. Young was named to his current position in December 2006.

A native of Denver, Colo., Young earned a Bachelor of Arts degree in business administration from the University of North Carolina at Chapel Hill.

Young is a certified public accountant and a certified managerial accountant in North Carolina. He is a member of the American Institute of Certified Public Accountants, Institute of Managerial Accountants and National Association of Accountants. He is a member of the Edison Electric Institute Accounting Executive Advisory Committee, Southeastern Electric Exchange Accounting and Finance Section, and Financial Executive Institute's Committee on Corporate Reporting. He is also a board member of Goodwill Industries of the Southern Piedmont.

Young was born in 1958. He and his wife, Lilly, have a daughter and a son.

Duke Energy, one of the largest power companies in the United States, supplies and delivers electricity to approximately 4 million customers in the Carolinas and the Midwest. The company also distributes natural gas in Ohio and Kentucky. Its commercial power and international businesses operate diverse power generation assets in North America and Latin America, including a growing renewable energy portfolio. Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol DUK.

May 3, 2011

Our Perspective

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Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-015

REQUEST:

Refer to page 44 of the Direct Testimony of Julie S. Janson (Janson Testimony"). The discussion of merger commitments 9, 10, and 11 from Case No. 2005-00228[1] state that Duke Kentucky is willing to continue to abide by each of these merger commitments as part of the proposed transaction. In the Agreed Stipulation approved by the Commission in Case No. 2005-00228, these specific commitments were made by all of the applicants in that case, not just the utility subject to this Commission's jurisdictions.[2] For each of the three merger commitments, explain why the commitment is now being made solely by Duke Kentucky or whether each of the Joint Applicants joins in each commitment.

RESPONSE:

Joint Applicants join in each commitment

PERSON RESPONSIBLE: Julie S. Janson

[1] Case No. 2005-0028. Joint Application of Duke Energy Corporation, Duke Energy Holding Corp., Deer Acquisition Corp., Cougar Acquisition Corp., Cinergy Corp., The Cincinnati Gas and Electric Company and The Union Light, Heat and Power Company for Approval of an Acquisition and Transfer of Control (Ky. PSC May 3, 2006).

[2] The jurisdictional utility now known as Duke Energy Kentucky, Inc. was known as The Union Light, Heat and Power Company at the time of Case No. 2005-0028.

Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-016

REQUEST:

Refer to page 45, lines 10-13 of the Janson Testimony. Explain why the Joint Applicants suggest that merger commitment 12 from case No. 2005-00228 should be continued but only for the first six years following completion of the merger.

RESPONSE:

A suggested time limitation was intended so that the audits would not continue into perpetuity. The suggested six year time period was considered reasonable in that the time period would provide for three complete audits that will likely encompass the period before, during, and after integration of the Duke and Progress service companies. The current service company audit commitment has proven to be significantly time consuming and costly. Duke Energy Kentucky has been able to combine its own audit with similar audits of its affiliated utility in Indiana to better manage costs and resources. In this instance, the audit committed to for Kentucky will likely be a stand-alone audit in that it would not be combined with similar audits in the other Midwest jurisdictions.

PERSON RESPONSIBLE: Julie S. Janson

Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-017

REQUEST:

Refer to page 47, lines 1-5 of the Janson Testimony. The discussion of commitment 19 from Case No. 2005-00228 states that Duke Kentucky is willing to continue to abide by this merger commitment as part of the proposed transaction In the Agreed Stipulation approved by the Commission in Case No. 2005-00228, this commitment was made by all of the applicants in that case, not just the utility subject to this Commission's jurisdiction. Explain why this commitment is now being made solely by Duke Kentucky or whether each of the Joint Applicants joins in this commitment.

RESPONSE:

The Commitment pertains to the implementation of best practices at Duke Energy Kentucky and Duke Energy Kentucky is committing to update the Commission regarding the implementation of best practices. Joint Applicants join in this commitment.

PERSON RESPONSIBLE: Julie S. Janson

Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-018

REQUEST:

~~Refer to page 47, lines 21, continuing to page 48, line 2, of the Janson Testimony, which~~ discusses merger commitment 23 from Case No. 2005-00228 and states that Duke Kentucky is willing to continue to abide by this merger commitment as part of the proposed transaction.

a. In the Agreed Stipulation approved by the Commission in Case No. 2005-00228, this commitment was made by all of the applicants in that case, not just the utility subject to this Commission jurisdiction. Explain why this commitment is now being made solely by Duke Kentucky or whether each of the Joint Applicants joins in this commitment.

b. This commitment references Duke Kentucky's quarterly filings with the Commission. The quarterly filings, which the Commission Ordered in Case No 2001-00092,[3] require that Duke Kentucky file separate gas and electric balance sheets and income statements. Since the time of Case No. 2001-00092, the Commission has found it useful to receive monthly financial statement from other major utilities subject to its jurisdiction. Explain whether Duke Kentucky is willing to file with the Commission separate gas and electric income statements and a combined gas and electric balance sheet for each of the eight months that it does not make quarterly filings.

RESPONSE:

a. The referenced commitment applies to Duke Energy Kentucky and its continued filing with the Commission of schedules related to the Company's capital structure and capital contributions. Joint Applicants join in this commitment.

[3] Case No. 2001-00092, Adjustment of Gas Rates of The Union Light, Heat and Power Company (Ky. PSC. March 13, 2002).

b. Duke Energy Kentucky agrees to file with the Commission separate gas and electric income statements and a combined gas and electric balance sheet for each of the eight months it does not make quarterly filings.

PERSON RESPONSIBLE: a. – Julie S. Janson
b. – Danny Wiles

Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-019

REQUEST:

~~Refer to page 50, lines 6-11 of the Janson Testimony. The discussion of merger~~ commitment 31 from Case No. 2005-00228 states that Duke Kentucky is willing to continue to abide by this merger commitment as part of the proposed transaction. In the Agreed Stipulation approved by the Commission in Case No. 2005-00228, this commitment was made by all of the applicants in that case, not just the utility subject to this Commission's jurisdiction. Explain why this commitment is now being made solely by Duke Kentucky or whether each of the Joint Applicants joins in this commitment.

RESPONSE:

The referenced commitment applies to Duke Energy Kentucky and its commitment to file a notice and analysis with the Commisison of any changes or implications for Duke Energy Kentucky's customers of a utility merger exempted under KRS 278.020(5) and (6). Joint Applicants join in this commitment.

PERSON RESPONSIBLE: Julie S. Janson

STAFF-DR-01-020

REQUEST:

Refer to page 51, lines 13-23 of the Janson Testimony. The discussion of merger commitment 36 from Case No. 2005-00228 states that Duke Kentucky is willing to continue to abide by this merger commitment, which relates to filing annual reports with the Commission, as part of the proposed transaction. In the Agreed Stipulation approved by the Commission in Case No. 2005-0028, this commitment was made by all of the applicants in that case, not just the utility subject to this Commission's jurisdiction, and the applicants agreed that Duke Energy, Cinergy and Duke Ohio (then The Cincinnati Gas and Electric Company) would file copies of their reports with the Commission. Explain why this commitment is now being made solely by Duke Kentucky and involves filing only Duke Kentucky's annual report with the Commission.

RESPONSE:

The Joint Applicants join in this commitment, and each one agrees to file the annual reports described in Commitment 36 from Case No. 2005-00228 for Duke Energy Corp., Cinergy Corp., and for Duke Energy Ohio (fka – CG&E) along with the annual reporting requirements for Duke Energy Kentucky.

PERSON RESPONSIBLE: Julie S. Janson

STAFF-DR-01-021

REQUEST:

~~Refer to page 53, lines 22, continuing to page 54, line 4, of the Janson Testimony, which~~ discusses merger commitment 45 from Case No. 2005-00228. The testimony states that this commitment is out of date and should be eliminated. The commitment concerns Commission approval of "at-cost" pricing for the Utility Service Agreement, Service Agreements and Operating Companies Services Agreement. The testimony states that the commitment related to the effect of such approval "[o]n any subsequent rulemaking by FERC following repeal of the Public Utility Holding Company Act of 1935 and the enactment of the Energy Policy Act of 2005." However, as set forth in the Agreed Stipulation approved by the Commission in Case No. 2005-00228, the commitment states that Commission approval of the previously identified "at-cost" pricing "[d]oes not preclude the Commission from asserting any pricing methodology at the FERC, if applicable, after the finalization of the reporting requirements in RM05-32-000 (Repeal of the Public Utility Holding Company Act of 1935 and Enactment of the Energy Policy Act of 2005 – Notice of Proposed Rulemaking." Explain in detail why Duke Kentucky considers this commitment to now be out of date.

RESPONSE:

The Company believes the commitment is out of date because the Public Utility Holding Company Act has been repealed and the enactment of the Energy Policy Act of 2005-Notice of Proposed Rulemaking has concluded. The Company does not presume to preclude the Commission from asserting any pricing methodology in a future proceeding at FERC. In any event, the Company commits to follow Kentucky law with respect to the pricing for inter-company transactions not otherwise covered by Commission-approved service agreements.

PERSON RESPONSIBLE: Julie S. Janson

Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-022

REQUEST:

~~Refer to page 6 of the Direct Testimony of William Don Wathen Jr. ("Wathen Testimony")~~ which indicates that Duke Kentucky is not expected to realize any significant tangible savings as a result of the merger, but that Duke Energy will incur costs as a result of this merger. Mr. Wathen states that the merger savings during the first few years will arise from the ability to jointly dispatch generation and from fuel purchasing economies by the operating companies located in the Carolinas.

a. Provide a detailed description of what makes the proposed merger different from the Duke Energy – Cinergy Corp merger as to merger savings.

b. Mr Wathen states that costs incurred by Duke Energy to achieve the proposed merger will be allocated among its subsidiaries, including Duke Kentucky, but will not be included in any test year for recovery in electric or gas rates by Duke Kentucky. Explain how will these costs be allocated to Duke Kentucky and Duke Energy's other subsidiaries.

c Explain whether Duke Kentucky is expected to realize any fuel purchasing economies in the future as a result of the proposed merger.

RESPONSE:

a. Primary differences include the fact that Duke and Progress have contiguous operations which will facilitate fuel and dispatch savings for customers in the Carolinas. Duke Energy did achieve savings in administrative functions of the company over time in the Duke-Cinergy merger and expect to do the same with this merger. As savings are achieved net of cost-to-achieve and subject to rate filings and allocations, benefits would flow to customers over time.

b. For clarification, Mr. Wathen's direct testimony on this issue was amended pursuant to a filing made on April 29, 2011. Costs to achieve will be allocated to each subsidiary using the guidelines established in the service company agreements. The relative allocation of costs to achieve to each subsidiary will depend on the nature of the cost being allocated and the bases for allocations used in the service company agreements

c See response to AG-DR-01-030.

PERSON **RESPONSIBLE:** a) AR Mullinax b)-c)William Don Wathen

Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-023

REQUEST:

Refer to page 7 of Wathen Testimony, which indicates that Duke Kentucky expects to achieve savings by having "[s]"teady access to capital markets."

a. Explain why Duke Kentucky believes that such access to capital markets will be a benefit.

b. Provide the current debt/equity for Duke Kentucky.

c. Provide the current debt/equity ratio for Duke Energy.

RESPONSE:

a. See direct Testimony of Stephen G De May at pages 6 and 8-9 discussing benefits of Duke Energy Kentucky achieving its financial objectives and the impact of the merger on Duke Energy Kentucky's ability to meet its financial objectives, respectively.

b. As stated on page 9 of the Direct Testimony of Stephen G. De May, Duke Energy Kentucky's 12/31/2010 capitalization was comprised of 43% debt and 57% common equity. Duke Energy Kentucky's debt/equity ratio was 75%

c. As of 12/31/2010, Duke Energy's capitalization was 45% debt and 55% equity. Duke Energy's debt/equity ratio was 82%.

PERSON RESPONSIBLE: Stephen G. De May

Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-024

REQUEST:

Refer to page 15 of Wathen Testimony which discusses that Internal Revenue Code 482 will likely require the pricing of services provided by Duke Energy Business Services, LLC to be adjusted by the market value of those costs.

a. Describe what determines market value of these costs.

b. Explain whether the market value of costs can be different by geographic area within the Duke Energy footprint.

c. Explain how, for ratemaking purposes, services provided to Duke Kentucky at market value are reflected as being rendered to Duke Kentucky at cost.

RESPONSE:

a. Market value for purposes of IRC section 482 is determined by the price that a willing buyer would negotiate and with willing seller in an arm's length transaction in which neither party controls the other party. In general, market value for services would be based upon cost plus a markup to reflect a profit element. Treasury regulation section 1.482-1(a) explains the arm's length standard, which reflects market value, as follows:

> "In determining the true taxable income of a controlled taxpayer, the standard to be applied in every case is that of a taxpayer dealing at arm's length with an uncontrolled taxpayer. A controlled transaction meets the arm's length standard if the results of the transaction are consistent with the results that would have been realized if uncontrolled taxpayers had engaged in the same transaction under the same circumstances (arm's length result)."

b. The market value of services within different geographic regions in Duke Energy service areas may be different, since market value in different geographic areas may be based upon a different mix of costs and reflect different markups for profit earned on costs. However, the components of market value would be the same in different geographical areas, i.e, they would be based upon costs plus a mark-up to reflect profit. In the case of DEBS service agreement with Duke Energy Kentucky and other regulated utilities, DEBS charges companies for the services it provides and for assets used in connection with the services provided. For services, DEBS has agreed to limit the amount it charges companies to its costs of providing the services, without any markup. For assets used or provided in connection with DEBS services, the cost of capital is also charged based upon the rate of recovery allowed within each service territory. DEBS charges for services based upon its costs for employees who provide services to Duke Energy Kentucky. While the DEBS employees who perform services for Duke Energy Kentucky may differ from the group of DEBS employees who perform services for other companies it serves, the approach DEBS uses for determining costs is the same.

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c. As explained above, services provided by DEBS to Duke Energy Kentucky are provided at cost, and not at the market value rate that such services are likely to be provided at in a transaction between uncontrolled entities or taxpayers. DEBS assets used in connection with providing those services include the cost of capital that is based upon Duke Energy Kentucky's permitted rate of recovery.

PERSON RESPONSIBLE: William Don Wathen Jr.

Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-025

REQUEST:

Refer to page 20 of Wathen Testimony which indicates that affiliates providing services to Duke Kentucky that do not utilize Duke Energy's accounting system will invoice Duke Kentucky directly for services received.

a. Provide a list of affiliates that do not use Duke Energy's accounting system.

b. If the proposed merger is approved, will all entities that will become part of Duke Energy be required to utilize Duke Energy's accounting system?

c. Explain whether the proposed merger will require an upgrade of various software systems for the future.

RESPONSE:

a. All current Duke Energy affiliates including Duke Energy Kentucky use Duke Energy's accounting system.

b. Assessments are in process regarding the systems changes that might be required following the merger, and there is a general intent to convert the entities that become part of Duke Energy to Duke's accounting system.

c. Assessments will continue, but Duke Energy is currently not aware of any upgrades that will be required due to the merger to the accounting systems used by Duke Energy.

PERSON RESPONSIBLE: Danny Wiles

Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-026

REQUEST:

Identify by name, title, and dates of service, each person who served as an officer of each of the following entities from the date the Duke Energy / Cinergy merger was consummated to December 31, 2010: Duke Energy, Cinergy, Duke Ohio and Duke Kentucky.

RESPONSE:

See Staff-DR-01-026 Attachment.

PERSON RESPONSIBLE: James E. Rogers

DUKE ENERGY KENTUCKY, INC. OFFICERS (4-03-2006 to 12-31-2010)

Appointed Entity	Type	Date First Elected	Date Resigned
Adams, Susie C.	Vice President. Business Support	5/7/2008	
Beach, Richard G.	Assistant Secretary	1/3/2003	
Butler, Keith Gerard	Senior Vice President, Tax	3/14/2007	
Caldwell, Myron Lawing	Senior Vice President, Financial Planning and Analysis	12/7/2009	
Campbell, Russell K.	Vice President, Asset Management	3/31/2010	
Carrick, M. Allen	Assistant Treasurer	3/14/2007	
Council, Donna T.	Assistant Treasurer	12/16/2006	
Daji, Swati V.	Chief Risk Officer	7/30/2010	
De May, Stephen Gerard	Treasurer	11/15/2007	
De May, Stephen Gerard	Senior Vice President	3/1/2009	
Finnigan, John J.	Vice President, Government and Regulatory Affairs	11/10/2008	
Gainer, James B.	Vice President, Federal Regulatory Policy	3/14/2007	
Ghartey-Tagoe, Kodwo	Assistant Secretary	11/10/2008	
Ghartey-Tagoe, Kodwo	Vice President, Legal	11/10/2008	
Good, Lynn J.	Chief Financial Officer	1/29/2010	
Harrington, Sue Cochran	Assistant Secretary	6/29/2007	
Haviland, Richard W.	Senior Vice President, Construction and Major Projects	2/17/2008	
Jamil, Dhiaa M.	Chief Generation Officer	7/27/2009	
Jamil, Dhiaa M.	Group Executive	7/27/2009	
Janson, Julia S.	President	12/1/2008	
Lucas III, Robert Theodore	Assistant Secretary	4/3/2006	
Maltz, David S.	Vice President	12/1/2008	
Maltz, David S.	Corporate Secretary	12/1/2008	
Manes, Gianna M.	Senior Vice President	5/16/2010	
Manes, Gianna M.	Chief Customer Officer	5/16/2010	
Manly, Marc E.	Group Executive	3/14/2007	
Manly, Marc E.	Chief Legal Officer	3/14/2007	
Mehring, James E.	Vice President, Gas Operations	6/1/2010	

Mohler, David W.	Chief Technology Officer	3/14/2007	
Mohler, David W.	Senior Vice President	7/30/2010	
Monday, Karen R.	Vice President, Foundation and Business Management	2/1/2010	
Mullinax, A. R.	Chief Information Officer	3/14/2007	
Mullinax, A. R.	Senior Vice President	3/14/2007	
Newton, Paul Robert	Senior Vice President, Strategy, Wholesale Customers and Commodities & Analytics	12/7/2009	
O'Connor, C. James	Vice President, Human Resources	4/3/2006	
Peeler, V. Nelson	Vice President and Project Director, Enterprise Asset Management Initiative	6/29/2007	
Reising, Ronald R.	Chief Procurement Officer	3/14/2007	
Reising, Ronald R.	Senior Vice President	1/1/2009	
Ringel, Robert J.	Assistant Corporate Secretary	12/10/2008	
Roebel, John J.	Senior Vice President, Generation Support	12/7/2009	
Rogers, James E.	Chief Executive Officer	3/14/2007	
Stanley, Jim L.	Senior Vice President, Power Delivery	5/31/2010	
Svrcek, Mark A.	Vice President, Business Development and Origination	3/14/2007	
Tyndall, William F.	Senior Vice President, Federal Government and Regulatory Affairs	4/27/2009	
Weber, Jennifer L.	Chief Human Resources Officer	11/10/2008	
Weber, Jennifer L.	Senior Vice President	11/10/2008	
Wiles, James D.	Vice President, Accounting	6/16/2008	
Young, Steven Keith	Controller	3/14/2007	
Young, Steven Keith	Senior Vice President	3/14/2007	
O'Connor, Thomas C.	Group Executive & Chief Operating Officer, US Franchised Electric & Gas	4/3/2006	10/15/2006
Caldwell, Myron Lawing	Group Vice President and Chief Financial Officer	4/3/2006	3/14/2007
Jacobs, Dwight L.	Controller	4/3/2006	3/14/2007
Good, Lynn J.	Vice President	4/3/2006	3/14/2007

Good, Lynn J.	Treasurer	4/3/2006	3/14/2007
Jacobs, Dwight L.	Vice President	4/3/2006	3/14/2007
Newton, Paul Robert	Group Vice President, General Counsel & Secretary, US Franchised Electric & Gas	4/3/2006	3/14/2007
Roebel, John J.	Group Vice President - Engineering & Technical Services	4/3/2006	3/14/2007
Mc Collum, Jr., William Ralph	Group Vice President - Regulated Fossil Hydro Generation	4/3/2006	3/14/2007
Council, Donna T.	General Manager, Cash Management and Assistant Treasurer	4/3/2006	3/14/2007
De May, Stephen Gerard	General Manager, Financing and Assistant Treasurer	4/3/2006	3/14/2007
Holeman, Theopolis	Group Vice President, Power Delivery	4/3/2006	3/14/2007
Turner, James L.	Group Executive & Chief Commercial Officer, US Franchised Electric & Gas	4/3/2006	3/14/2007
Mc Collum, Jr., William Ralph	Group Executive	3/14/2007	3/30/2007
Mc Collum, Jr., William Ralph	Chief Regulated Generation Officer	3/14/2007	3/30/2007
Trent, B. Keith	Chief Strategy and Policy Officer	3/14/2007	6/29/2007
Riggs, Caryn J	Vice President, Performance Support	3/14/2007	6/29/2007
Barry, Paul Herbert	Chief Development Officer	3/14/2007	7/31/2007
Barry, Paul Herbert	Senior Vice President	3/14/2007	7/31/2007
Good, Lynn J.	Senior Vice President	3/14/2007	11/15/2007
Good, Lynn J.	Treasurer	4/3/2006	11/15/2007
De May, Stephen Gerard	Assistant Treasurer	4/3/2006	11/15/2007
Barron, Jr., Henry Brewerton	Group Executive	3/14/2007	2/17/2008
Barron, Jr., Henry Brewerton	Chief Nuclear Officer	3/14/2007	2/17/2008
Celona, David L	Vice President, Government and Regulatory Affairs	3/14/2007	3/14/2008
Jacobs, Dwight L.	Vice President, FE&G Accounting	4/13/2007	6/16/2008

Wiesen, F. Wayne	Senior Vice President, Legal	3/14/2007	8/12/2008
Wiesen, F. Wayne	Assistant Secretary	3/14/2007	8/12/2008
Arnold, Todd W.	Senior Vice President, Customer Service	3/14/2007	8/13/2008
Pashos, Kay E.	Vice President, Regulatory Strategy	3/14/2007	10/8/2008
Maltz, David S.	Assistant Secretary	4/3/2006	12/1/2008
Janson, Julia S.	Senior Vice President	3/14/2007	12/1/2008
Janson, Julia S.	Corporate Secretary	3/14/2007	12/1/2008
Carter, Brett C.	Vice President, Customer Service	8/13/2008	12/8/2008
Carter, Brett C.	Vice President, Customer Origination and Retention	3/14/2007	12/8/2008
Holeman, Theopolis	Senior Vice President, Power Delivery	3/14/2007	12/10/2008
Newton, Paul Robert	Senior Vice President, Legal	3/14/2007	12/10/2008
Newton, Paul Robert	Assistant Secretary	3/14/2007	12/10/2008
Meyer, Sandra Palmer	President	4/3/2006	12/10/2008
Holeman, Theopolis	Senior Vice President	12/10/2008	12/31/2008
Reising, Ronald R.	Vice President	3/14/2007	1/1/2009
De May, Stephen Gerard	Vice President	11/15/2007	3/1/2009
Rolfe, Christopher Clay	Chief Administrative Officer	3/14/2007	5/31/2009
Rolfe, Christopher Clay	Group Executive	3/14/2007	5/31/2009
Smith, Paul G.	Vice President, Rates	5/7/2008	6/1/2009
Hauser, David Lee	Group Executive	3/14/2007	7/1/2009
Trent, B. Keith	Chief Strategy, Policy and Regulatory Officer	6/29/2007	7/1/2009
Trent, B. Keith	Group Executive	3/14/2007	7/1/2009
Hauser, David Lee	Chief Financial Officer	3/14/2007	7/1/2009
Wood, Jr., Barry W.	Vice President, Business Relations and Development	3/14/2007	8/1/2009
Roebel, John J.	Senior Vice President, Engineering and Technical Services	3/14/2007	12/6/2009
Caldwell, Myron Lawing	Senior Vice President, Rates and Regulatory Accounting	3/14/2007	12/6/2009
Manes, Gianna M.	Senior Vice President, Retail Customer Services	12/8/2008	12/6/2009

Newton, Paul Robert	Senior Vice President, Wholesale Customers and Regulated Commodity Management	12/10/2008	12/6/2009
Young, Steven Keith	Chief Financial Officer	7/1/2009	1/29/2010
Arnold, Todd W	Senior Vice President, Smart Grid and Customer Systems	8/13/2008	1/31/2010
Eiser, Lawrence G.	Vice President, Call Center Operations	3/14/2007	3/31/2010
Snead, Ronald C.	Vice President, Asset Management	3/14/2007	3/31/2010
Manes, Gianna M.	Senior Vice President, Retail Customer Products and Services	12/7/2009	5/16/2010
Walker, Patricia K.	Senior Vice President, Gas Operations	3/14/2007	5/31/2010
Henry, Robert S.	Vice President, System Operations	3/14/2007	5/31/2010
Meyer, Sandra Palmer	Senior Vice President, Power Delivery	12/10/2008	5/31/2010
Mehring, James E.	Vice President, Field Operations	3/14/2007	6/1/2010
Roche, Cathy Steele	Chief Communications Officer	3/14/2007	7/1/2010
Roche, Cathy Steele	Senior Vice President	3/14/2007	7/1/2010
Mohler, David W.	Vice President	3/14/2007	7/30/2010
De May, Stephen Gerard	Chief Risk Officer	3/1/2009	7/30/2010
Schultz, Theodore Edward	Vice President, Energy Efficiency	6/29/2007	8/31/2010
Esamann, Douglas F	Senior Vice President, Strategy and Planning	6/29/2007	11/19/2010
Turner, James L.	Group Executive	4/3/2006	12/31/2010
Turner, James L.	Chief Operating Officer	6/29/2007	12/31/2010
Love, Sherwood Lee	Assistant Treasurer	3/14/2007	12/31/2010

DUKE ENERGY OHIO, INC. OFFICERS (4-03-2006 TO 12-31-2010)

Appointed Entity	Type	Date First Elected	Date Resigned
Adams, Susie C.	Vice President, Business Support	5/7/2008	
Beach, Richard G.	Assistant Secretary	4/3/2006	
Butler, Keith Gerard	Senior Vice President, Tax	3/14/2007	
Caldwell, Myron Lawing	Senior Vice President, Financial Planning and Analysis	12/7/2009	
Campbell, Russell K.	Vice President, Asset Management	3/31/2010	
Carrick, M. Allen	Assistant Treasurer	3/14/2007	
Council, Donna T.	Assistant Treasurer	12/16/2006	
Daji, Swati V.	Chief Risk Officer	7/30/2010	
De May, Stephen Gerard	Treasurer	11/15/2007	
De May, Stephen Gerard	Senior Vice President	3/1/2009	
Finnigan, John J.	Vice President, Government and Regulatory Affairs	11/10/2008	
Gainer, James B.	Vice President, Federal Regulatory Policy	3/14/2007	
Ghartey-Tagoe, Kodwo	Assistant Secretary	11/10/2008	
Ghartey-Tagoe, Kodwo	Vice President, Legal	11/10/2008	
Good, Lynn J.	Chief Financial Officer	1/29/2010	
Harrell, Richard D.	Vice President, Field Operations	6/1/2010	
Harrington, Sue Cochran	Assistant Secretary	6/29/2007	
Haviland, Richard W.	Senior Vice President, Construction and Major Projects	2/17/2008	
Hofmann, Michael L.	Vice President, Generation Operations Non-Regulated	6/4/2008	
Jamil, Dhiaa M.	Chief Generation Officer	7/27/2009	
Jamil, Dhiaa M.	Group Executive	7/27/2009	
Janson, Julia S.	President	12/1/2008	
Lucas III, Robert Theodore	Assistant Secretary	4/3/2006	
Maltz, David S.	Vice President	12/1/2008	
Maltz, David S.	Corporate Secretary	12/1/2008	
Manes, Gianna M.	Senior Vice President	5/16/2010	

Manes, Gianna M.	Chief Customer Officer	5/16/2010	
Manly, Marc E.	Group Executive	3/14/2007	
Manly, Marc E.	Chief Legal Officer	3/14/2007	
Mehring, James E.	Vice President, Gas Operations	6/1/2010	
Mohler, David W.	Chief Technology Officer	3/14/2007	
Mohler, David W.	Senior Vice President	7/30/2010	
Monday, Karen R.	Vice President, Foundation and Business Management	2/1/2010	
Mullinax, A. R.	Chief Information Officer	3/14/2007	
Mullinax, A. R.	Senior Vice President	3/14/2007	
Newton, Paul Robert	Senior Vice President, Strategy, Wholesale Customers and Commodities & Analytics	12/7/2009	
O'Connor, C. James	Vice President, Human Resources	4/3/2006	
Peeler, V. Nelson	Vice President and Project Director, Enterprise Asset Management Initiative	6/29/2007	
Reising, Ronald R.	Chief Procurement Officer	3/14/2007	
Reising, Ronald R.	Senior Vice President	1/1/2009	
Ringel, Robert J.	Assistant Corporate Secretary	12/10/2008	
Roebel, John J.	Senior Vice President, Generation Support	12/7/2009	
Rogers, James E.	Chief Executive Officer	3/14/2007	
Stanley, Jim L.	Senior Vice President, Power Delivery	5/31/2010	
Tyndall, William F.	Senior Vice President, Federal Government and Regulatory Affairs	4/27/2009	
Weber, Jennifer L.	Chief Human Resources Officer	11/10/2008	
Weber, Jennifer L.	Senior Vice President	11/10/2008	
Whitlock, Charles R.	President, Commercial Asset Management and Operations	1/1/2010	
Wiles, James D.	Vice President, Accounting	6/16/2008	
Young, Steven Keith	Controller	3/14/2007	
Young, Steven Keith	Senior Vice President	3/14/2007	
Mitchell, Lon C.	Vice President	4/3/2006	10/13/2006
Barry, Paul Herbert	Vice President	4/3/2006	10/15/2006

O'Connor, Thomas C.	Director	4/3/2006	10/15/2006
O'Connor, Thomas C.	Group Executive & Chief Operating Officer, US Franchised Electric & Gas	4/3/2006	10/15/2006
Newton, Paul Robert	Group Vice President, General Counsel & Secretary, US Franchised Electric & Gas	4/3/2006	3/14/2007
~~Roebel, John J.~~	~~Group Vice President - Engineering & Technical Services~~	~~4/3/2006~~	~~3/14/2007~~
Council, Donna T.	General Manager, Cash Management and Assistant Treasurer	4/3/2006	3/14/2007
De May, Stephen Gerard	General Manager, Financing and Assistant Treasurer	4/3/2006	3/14/2007
Holeman, Theopolis	Group Vice President, Power Delivery	4/3/2006	3/14/2007
Davis, Curtis Henry	Vice President - Commercial Generation	4/3/2006	3/14/2007
Turner, James L.	Group Executive & Chief Commercial Officer, US Franchised Electric & Gas	4/3/2006	3/14/2007
Mc Collum, Jr., William Ralph	Director	10/15/2006	3/14/2007
Meyer, Sandra Palmer	Director	4/3/2006	3/14/2007
Caldwell, Myron Lawing	Group Vice President and Chief Financial Officer	4/3/2006	3/14/2007
Jacobs, Dwight L.	Controller	4/3/2006	3/14/2007
Jacobs, Dwight L.	Vice President	4/3/2006	3/14/2007
Wiesen, F. Wayne	Vice President	4/3/2006	3/14/2007
Good, Lynn J.	Vice President	4/3/2006	3/14/2007
Whitlock, Charles R.	Vice President	4/3/2006	3/14/2007
O'Connor, Thomas C.	Vice President	10/15/2006	3/14/2007
Mc Collum, Jr., William Ralph	Vice President	10/15/2006	3/14/2007
Mc Collum, Jr., William Ralph	Group Executive	3/14/2007	3/30/2007
Mc Collum, Jr., William Ralph	Chief Regulated Generation Officer	3/14/2007	3/30/2007
Trent, B. Keith	Chief Strategy and Policy Officer	3/14/2007	6/29/2007
Peeler, V. Nelson	Vice President, Performance Support	3/14/2007	6/29/2007
Barry, Paul Herbert	Chief Development Officer	3/14/2007	7/31/2007

Barry, Paul Herbert	Senior Vice President	3/14/2007	7/31/2007
Good, Lynn J.	Senior Vice President	3/14/2007	11/15/2007
De May, Stephen Gerard	Assistant Treasurer	4/3/2006	11/15/2007
Good, Lynn J.	Treasurer	4/3/2006	11/15/2007
Barron, Jr., Henry Brewerton	Chief Nuclear Officer	3/14/2007	2/17/2008
Barron, Jr., Henry Brewerton	Group Executive	3/14/2007	2/17/2008
Davis, Curtis Henry	Senior Vice President, Midwest Generation Operations	3/14/2007	2/29/2008
Celona, David L	Vice President, Government and Regulatory Affairs	3/14/2007	3/14/2008
Jacobs, Dwight L.	Vice President, FE&G Accounting	4/13/2007	6/16/2008
Wiesen, F. Wayne	Senior Vice President, Legal	3/14/2007	8/12/2008
Wiesen, F. Wayne	Assistant Secretary	4/3/2006	8/12/2008
Arnold, Todd W.	Senior Vice President, Customer Service	3/14/2007	8/13/2008
Pashos, Kay E.	Vice President, Regulatory Strategy	3/14/2007	10/8/2008
Maltz, David S.	Assistant Secretary	4/3/2006	12/1/2008
Janson, Julia S.	Senior Vice President	3/14/2007	12/1/2008
Janson, Julia S.	Corporate Secretary	3/14/2007	12/1/2008
Carter, Brett C.	Vice President, Customer Service	8/13/2008	12/8/2008
Holeman, Theopolis	Senior Vice President, Power Delivery	3/14/2007	12/10/2008
Newton, Paul Robert	Senior Vice President, Legal	3/14/2007	12/10/2008
Newton, Paul Robert	Assistant Secretary	3/14/2007	12/10/2008
Meyer, Sandra Palmer	President	4/3/2006	12/10/2008
Newton, Paul Robert	Senior Vice President, Wholesale Customers and Regulated Commodity Management	12/10/2008	12/10/2008
Holeman, Theopolis	Senior Vice President	12/10/2008	12/31/2008
Reising, Ronald R.	Vice President	3/14/2007	1/1/2009
De May, Stephen Gerard	Vice President	11/15/2007	3/1/2009
Rolfe, Christopher Clay	Chief Administrative Officer	3/14/2007	5/31/2009
Rolfe, Christopher Clay	Group Executive	3/14/2007	5/31/2009
Smith, Paul G.	Vice President, Rates	5/7/2008	6/1/2009

Trent, B. Keith	Chief Strategy, Policy and Regulatory Officer	6/29/2007	7/1/2009
Hauser, David Lee	Group Executive	3/14/2007	7/1/2009
Trent, B. Keith	Group Executive	3/14/2007	7/1/2009
Hauser, David Lee	Director	3/14/2007	7/1/2009
Hauser, David Lee	Chief Financial Officer	3/14/2007	7/1/2009
Wood, Jr., Barry W.	Vice President, Business Relations and Development	3/14/2007	8/1/2009
Whitlock, Charles R.	Senior Vice President, Commercial Asset Management	3/14/2007	12/6/2009
Roebel, John J.	Senior Vice President, Engineering and Technical Services	3/14/2007	12/6/2009
Caldwell, Myron Lawing	Senior Vice President, Rates and Regulatory Accounting	3/14/2007	12/6/2009
Manes, Gianna M.	Senior Vice President, Retail Customer Services	12/8/2008	12/6/2009
Grigsby, Phillip C.	Senior Vice President, Midwest Generation Portfolio	3/4/2008	12/7/2009
Whitlock, Charles R.	Senior Vice President, Commercial Asset Management and Midwest Generation	12/7/2009	1/1/2010
Young, Steven Keith	Chief Financial Officer	7/1/2009	1/29/2010
Manly, Marc E.	Director	7/1/2009	1/29/2010
Arnold, Todd W.	Senior Vice President, Smart Grid and Customer Systems	8/13/2008	1/31/2010

DUKE ENERGY CORPORATION OFFICERS (4-03-2006 TO 12-31-2010)

Appointed Entity	Type	Date First Elected	Date Resigned
Beach, Richard G.	Assistant Secretary	1/3/2003	
Bowman, Roberta Bromberg	Group Executive	11/10/2008	
Bowman, Roberta Bromberg	Chief Sustainability Officer	11/10/2008	
Butler, Keith Gerard	Senior Vice President, Tax	11/10/2008	
Carrick, M. Allen	Assistant Treasurer	11/10/2008	
Council, Donna T.	Assistant Treasurer	4/3/2006	
Daji, Swati V.	Chief Risk Officer	12/7/2009	
De May, Stephen Gerard	Treasurer	12/20/2007	
De May, Stephen Gerard	Senior Vice President	3/1/2009	
Good, Lynn J.	President	7/1/2009	
Maltz, David S.	Corporate Secretary	12/1/2008	
Manly, Marc E.	Group Executive	11/10/2008	
Manly, Marc E.	Chief Legal Officer	11/10/2008	
Mohler, David W.	Senior Vice President	12/7/2009	
Mohler, David W.	Chief Technology Officer	11/10/2008	
Mullinax, A. R.	Chief Information Officer	11/10/2008	
Mullinax, A. R.	Senior Vice President	11/10/2008	
O'Neill, Teresa M.	Assistant Secretary	11/10/2008	
Reising, Ronald R.	Senior Vice President	1/1/2009	
Reising, Ronald R.	Chief Procurement Officer	11/10/2008	
Ringel, Robert J.	Assistant Secretary	12/10/2008	
Weber, Jennifer L.	Senior Vice President	11/10/2008	
Weber, Jennifer L.	Chief Human Resources Officer	11/10/2008	
Young, Steven Keith	Chief Financial Officer	4/3/2006	
Young, Steven Keith	Controller	4/3/2006	
Ables, Dorothy M.	Vice President, Internal Audit	4/3/2006	12/19/2006
Anderson, Paul M.	Chairman of the Board	4/3/2006	1/2/2007
Barron, Jr., Henry Brewerton	Group Executive and Chief Nuclear Officer	10/24/2006	2/17/2008
Barron, Jr., Henry Brewerton	Group Executive	10/24/2006	3/31/2008
Barry, Paul Herbert	Senior Vice President and Chief Development Officer	4/3/2006	7/31/2007
Bowman, Roberta Bromberg	Vice President, Sustainability and Community Affairs	12/19/2006	3/1/2008
Browning, Jeffery G.	Chief Ethics and Compliance Officer	12/1/2008	5/31/2010
Browning, Jeffery G.	Vice President, Audit Services	12/19/2006	5/31/2010
Browning, Jeffery G.	Senior Vice President	6/1/2010	12/9/2010

Caldwell, Myron Lawing	Senior Vice President, Rates and Regulatory Accounting	12/19/2006	9/30/2009
Council, Donna T.	Assistant Treasurer	4/3/2006	12/19/2006
De May, Stephen Gerard	Vice President	11/15/2007	2/28/2009
De May, Stephen Gerard	Assistant Treasurer	4/3/2006	11/15/2007
De May, Stephen Gerard	Chief Risk Officer	3/1/2009	9/30/2009
Dill, Julie A.	Group Executive, Investor Relations and Chief Communications Officer	4/3/2006	12/19/2006
Esamann, Douglas F	Senior Vice President, Strategy and Planning	12/19/2006	12/9/2010
Feld, Karen R.	Vice President, Corporate Human Resources	4/3/2006	1/1/2009
Fowler, Fred J.	Group Executive and President, Duke Energy Gas	4/3/2006	12/19/2006
Good, Lynn J.	Group Executive and President, Commercial Businesses	11/15/2007	7/2/2009
Good, Lynn J.	Senior Vice President and Treasurer	4/3/2006	11/15/2007
Grigsby, Phillip C.	Vice President, Business Development	12/19/2006	3/1/2008
Hauser, David Lee	Group Executive and Chief Financial Officer	4/3/2006	6/30/2009
Hermanson, Todd A.	Vice President, Global Risk Management	12/19/2006	4/30/2007
Hunter, Amelia D.	Interim Vice President, Audit Services and Chief Ethics and Compliance Officer	6/1/2010	12/9/2010
Irvin, Robert	Vice President, Market and Portfolio Analysis	4/3/2006	12/19/2006
Janson, Julia S.	Senior Vice President, Ethics and Compliance and Corporate Secretary	4/3/2006	12/1/2008
Love, Sherwood Lee	Assistant Treasurer	4/3/2006	12/9/2010
Maltz, David S.	Assistant Corporate Secretary	4/3/2006	12/10/2008
Mc Collum, Jr., William Ralph	Group Executive and Chief Regulated Generation Officer	10/24/2006	4/1/2007
McKone, Leo Timothy	Vice President, Compliance	4/3/2006	6/10/2006
McLean, Colon S.	Vice President, Human Resources Business Support	4/3/2006	8/1/2008
Mogg, Jim W.	Advisor to the Chairman	4/3/2006	9/1/2006
Mohler, David W.	Vice President	4/3/2006	9/30/2009
O'Connor, Thomas C.	Group Executive and President, Commercial Businesses	4/3/2006	11/15/2007
Roche, Cathy Steele	Senior Vice President and Chief Communications Officer	4/3/2006	7/1/2010
Rolfe, Christopher Clay	Group Executive and Chief Administrative Officer	4/3/2006	5/31/2009
Ruff, Ellen Tart	President, Office of Nuclear Development	12/1/2008	12/31/2010
Schultz, Theodore Edward	Vice President, Energy Efficiency	12/19/2006	8/31/2010
Shaw, Ruth Gwynn	Executive Advisor to the Chairman, President and Chief Executive Officer	4/3/2006	4/30/2007
Simpson, Phyllis Tucker	Assistant Corporate Secretary	4/3/2006	6/30/2007

Stempien, Catherine S.	Senior Vice President Legal, Corporate Legal Services	4/3/2006	12/1/2008
Trauschke, R. Sean	Senior Vice President, Investor Relations and Financial Planning	11/15/2007	4/24/2009
Trauschke, R. Sean	Vice President, Investor Relations	4/3/2006	11/15/2007
Trent, B. Keith	Group Executive and Chief Strategy, Policy and Regulatory Officer	4/3/2006	7/2/2009
Turner, James L.	Group Executive; President and Chief Operating Officer, US Franchised Electric and Gas	4/3/2006	12/31/2010
van Kempen, Wouter T.	Vice President, Mergers and Acquisitions	4/3/2006	10/24/2006
Weber, Jennifer L.	Senior Vice President and Chief Human Resources Officer	11/1/2008	12/31/2010
Whitney, Sara (Sally) Sally	Senior Vice President, Finance Program Office and Finance Information Technology	4/3/2006	7/1/2010
Williams, Richard Tyrone	Vice President, Enterprise Field Services	4/3/2006	12/19/2006
Wolf, Gregory C.	Vice President, Commercial Telecom and Investment Management	4/3/2006	12/19/2006

CINERGY CORP. OFFICERS (4-03-2006 to 12-31-2010)

Appointed Entity	Type	Date First Elected	Date Resigned
Beach, Richard G.	Assistant Secretary	1/3/2003	
Bowman, Roberta Bromberg	Group Executive	11/10/2008	
~~Bowman, Roberta~~ Bromberg	Chief Sustainability Officer	11/10/2008	
Butler, Keith Gerard	Senior Vice President, Tax	11/10/2008	
Carrick, M. Allen	Assistant Treasurer	11/10/2008	
Council, Donna T.	Assistant Treasurer	4/3/2006	
Daji, Swati V.	Chief Risk Officer	12/7/2009	
De May, Stephen Gerard	Treasurer	12/20/2007	
De May, Stephen Gerard	Senior Vice President	3/1/2009	
Good, Lynn J.	President	7/1/2009	
Maltz, David S.	Corporate Secretary	12/1/2008	
Manly, Marc E.	Group Executive	11/10/2008	
Manly, Marc E.	Chief Legal Officer	11/10/2008	
Mohler, David W.	Senior Vice President	12/7/2009	
Mohler, David W.	Chief Technology Officer	11/10/2008	
Mullinax, A. R.	Chief Information Officer	11/10/2008	
Mullinax, A. R.	Senior Vice President	11/10/2008	
O'Neill, Teresa M.	Assistant Secretary	11/10/2008	
Reising, Ronald R.	Senior Vice President	1/1/2009	
Reising, Ronald R.	Chief Procurement Officer	11/10/2008	
Ringel, Robert J.	Assistant Secretary	12/10/2008	
Weber, Jennifer L.	Senior Vice President	11/10/2008	
Weber, Jennifer L.	Chief Human Resources Officer	11/10/2008	
Young, Steven Keith	Chief Financial Officer	4/3/2006	
Young, Steven Keith	Controller	4/3/2006	
Butler, Keith Gerard	Vice President, Tax	4/3/2006	11/10/2008
Council, Donna T.	Assistant Secretary	4/3/2006	11/10/2008
De May, Stephen Gerard	Assistant Treasurer	4/3/2006	12/20/2007
De May, Stephen Gerard	Vice President	12/20/2007	3/1/2009
De May, Stephen Gerard	Chief Risk Officer	3/1/2009	12/6/2009
Fite, Beverly J.	Assistant Secretary	4/3/2006	11/20/2006

Good. Lynn J.	Treasurer	4/3/2006	12/20/2007
Good. Lynn J.	Vice President	4/3/2006	12/20/2007
Hauser. David Lee	President	4/3/2006	7/1/2009
Janson, Julia S.	Secretary	7/19/2000	11/10/2008
Janson, Julia S.	Senior Vice President	11/10/2008	12/1/2008
Janson, Julia S.	Corporate Secretary	11/10/2008	12/1/2008
Love, Sherwood Lee	Assistant Treasurer	11/10/2008	12/31/2010
Lucas III, Robert Theodore	Assistant Secretary	4/3/2006	11/10/2008
Maltz. David S.	Assistant Secretary	4/3/2006	12/1/2008
Maltz. David S.	General Counsel	4/3/2006	11/10/2008
Matthews, Kalyn T.	Assistant Treasurer	4/3/2006	11/10/2008
Mohler, David W.	Vice President	11/10/2008	12/6/2009
Reising, Ronald R.	Vice President	11/10/2008	1/1/2009
Roche, Cathy Steele	Chief Communications Officer	11/10/2008	7/1/2010
Roche, Cathy Steele	Senior Vice President	11/10/2008	7/1/2010
Rolfe, Christopher Clay	Chief Administrative Officer	11/10/2008	5/31/2009
Rolfe, Christopher Clay	Group Executive	11/10/2008	5/31/2009
Trauschke, R. Sean	Vice President	4/3/2006	11/10/2008
Trauschke, R. Sean	Chief Risk Officer	4/3/2006	11/10/2008
Trent, B. Keith	Group Executive	11/10/2008	7/1/2009
Trent, B. Keith	Chief Strategy, Policy and Regulatory Officer	11/10/2008	7/1/2009

Duke Energy Kentucky
Case No. 2011-124
Staff First Set Data Requests
Date Received: April 28, 2011

STAFF-DR-01-027

REQUEST:

Provide an organizational chart that shows the name and title of each person currently employed as a vice president or above for each of the following entities: Duke Energy, Cinergy, Duke Ohio, and Duke Kentucky.

RESPONSE:

See Staff-DR-01-027 attachment.

PERSON RESPONSIBLE: James E. Rogers

CURRENT DUKE ENERGY OHIO, INC. VICE PRESIDENTS AND ABOVE as of 5/05/2011

Appointed Entity	Type	Date First Elected
Adams, Susie C.	Vice President, Business Support	5/7/2008
Butler, Keith Gerard	Senior Vice President, Tax	3/14/2007
Caldwell, Myron Lawing	Senior Vice President, Financial Planning and Analysis	12/7/2009
Campbell, Russell K.	Vice President, Asset Management	3/31/2010
Daji, Swati V.	Chief Risk Officer	7/30/2010
De May, Stephen Gerard	Treasurer	11/15/2007
De May, Stephen Gerard	Senior Vice President	3/1/2009
Finnigan, John J.	Vice President, Government and Regulatory Affairs	11/10/2008
Gainer, James B.	Vice President, Federal Regulatory Policy	3/14/2007
Ghartey-Tagoe, Kodwo	Vice President, Legal	11/10/2008
Good, Lynn J.	Chief Financial Officer	1/29/2010
Harrell, Richard D.	Vice President, Field Operations	6/1/2010
Haviland, Richard W.	Senior Vice President, Construction and Major Projects	2/17/2008
Hofmann, Michael L.	Vice President, Generation Operations Non-Regulated	6/4/2008
Jamil, Dhiaa M.	Chief Generation Officer	7/27/2009
Jamil, Dhiaa M.	Group Executive	7/27/2009
Janson, Julia S.	President	12/1/2008
Maltz, David S.	Vice President	12/1/2008
Maltz, David S.	Corporate Secretary	12/1/2008
Manes, Gianna M.	Senior Vice President	5/16/2010
Manes, Gianna M.	Chief Customer Officer	5/16/2010
Manly, Marc E.	Group Executive	3/14/2007
Manly, Marc E.	Chief Legal Officer	3/14/2007
Mehring, James E.	Vice President, Gas Operations	6/1/2010
Mohler, David W.	Chief Technology Officer	3/14/2007

Mohler. David W.	Senior Vice President	7/30/2010
Monday, Karen R.	Vice President, Foundation and Business Management	2/1/2010
Mullinax, A. R.	Chief Information Officer	3/14/2007
Mullinax, A. R.	Senior Vice President	3/14/2007
Newton, Paul Robert	Senior Vice President, Strategy, Wholesale Customers and Commodities & Analytics	12/7/2009
O'Connor, C. James	Vice President, Human Resources	4/3/2006
Peeler, V. Nelson	Vice President and Project Director, Enterprise Asset Management Initiative	6/29/2007
Reising, Ronald R.	Chief Procurement Officer	3/14/2007
Reising, Ronald R.	Senior Vice President	1/1/2009
Roebel, John J.	Senior Vice President, Generation Support	12/7/2009
Rogers, James E.	Chief Executive Officer	3/14/2007
Stanley, Jim L.	Senior Vice President, Power Delivery	5/31/2010
Tyndall, William F.	Senior Vice President, Federal Government and Regulatory Affairs	4/27/2009
Weber, Jennifer L.	Chief Human Resources Officer	11/10/2008
Weber, Jennifer L.	Senior Vice President	11/10/2008
Whitlock, Charles R.	President, Commercial Asset Management and Operations	1/1/2010
Wiles, James D.	Vice President, Accounting	6/16/2008
Young, Steven Keith	Controller	3/14/2007
Young, Steven Keith	Senior Vice President	3/14/2007

CURRENT DUKE ENERGY KENTUCKY, INC. VICE PRESIDENTS AND ABOVE as of 5/05/2011

Appointed Entity	Type	Date First Elected
Adams, Susie C.	Vice President, Business Support	5/7/2008
Butler, Keith Gerard	Senior Vice President, Tax	3/14/2007
Caldwell, Myron Lawing	Senior Vice President, Financial Planning and Analysis	12/7/2009
Campbell, Russell K.	Vice President, Asset Management	3/31/2010
Daji, Swati V.	Chief Risk Officer	7/30/2010
De May, Stephen Gerard	Treasurer	11/15/2007
De May, Stephen Gerard	Senior Vice President	3/1/2009
Finnigan, John J.	Vice President, Government and Regulatory Affairs	11/10/2008
Gainer, James B.	Vice President, Federal Regulatory Policy	3/14/2007
Ghartey-Tagoe, Kodwo	Vice President, Legal	11/10/2008
Good, Lynn J.	Chief Financial Officer	1/29/2010
Haviland, Richard W.	Senior Vice President, Construction and Major Projects	2/17/2008
Jamil, Dhiaa M.	Chief Generation Officer	7/27/2009
Jamil, Dhiaa M.	Group Executive	7/27/2009
Janson, Julia S.	President	12/1/2008
Maltz, David S.	Vice President	12/1/2008
Maltz, David S.	Corporate Secretary	12/1/2008
Manes, Gianna M.	Senior Vice President	5/16/2010
Manes, Gianna M.	Chief Customer Officer	5/16/2010
Manly, Marc E.	Group Executive	3/14/2007
Manly, Marc E.	Chief Legal Officer	3/14/2007
Mehring, James E.	Vice President, Gas Operations	6/1/2010
Mohler, David W.	Chief Technology Officer	3/14/2007
Mohler, David W.	Senior Vice President	7/30/2010
Monday, Karen R.	Vice President, Foundation and Business Management	2/1/2010

Mullinax, A R.	Chief Information Officer	3/14/2007
Mullinax, A R.	Senior Vice President	3/14/2007
Newton, Paul Robert	Senior Vice President, Strategy, Wholesale Customers and Commodities & Analytics	12/7/2009
O'Connor, C. James	Vice President, Human Resources	4/3/2006
Peeler, V. Nelson	Vice President and Project Director, Enterprise Asset Management Initiative	6/29/2007
Reising, Ronald R.	Chief Procurement Officer	3/14/2007
Reising, Ronald R.	Senior Vice President	1/1/2009
Rocbel, John J.	Senior Vice President, Generation Support	12/7/2009
Rogers, James E.	Chief Executive Officer	3/14/2007
Stanley, Jim L.	Senior Vice President, Power Delivery	5/31/2010
Svrcek, Mark A.	Vice President, Business Development and Origination	3/14/2007
Tyndall, William F.	Senior Vice President, Federal Government and Regulatory Affairs	4/27/2009
Weber, Jennifer L.	Chief Human Resources Officer	11/10/2008
Weber, Jennifer L.	Senior Vice President	11/10/2008
Wiles, James D.	Vice President, Accounting	6/16/2008
Young, Steven Keith	Controller	3/14/2007
Young, Steven Keith	Senior Vice President	3/14/2007

CUURENT CINERGY CORP. VICE PRESIDENTS AND ABOVE as of 5/05/2011

Appointed Entity	Type	Date First Elected
Bowman, Roberta Bromberg	Chief Sustainability Officer	11/10/2008
Butler, Keith Gerard	Senior Vice President, Tax	11/10/2008
Daji, Swati V.	Chief Risk Officer	12/7/2009
De May, Stephen Gerard	Treasurer	12/20/2007
De May, Stephen Gerard	Senior Vice President	3/1/2009
Good, Lynn J.	President	7/1/2009
Maltz, David S.	Corporate Secretary	12/1/2008
Manly, Marc E.	Group Executive	11/10/2008
Manly, Marc E.	Chief Legal Officer	11/10/2008
Mohler, David W.	Senior Vice President	12/7/2009
Mohler, David W.	Chief Technology Officer	11/10/2008
Mullinax, A. R.	Chief Information Officer	11/10/2008
Mullinax, A. R.	Senior Vice President	11/10/2008
Reising, Ronald R.	Senior Vice President	1/1/2009
Reising, Ronald R.	Chief Procurement Officer	11/10/2008
Weber, Jennifer L.	Senior Vice President	11/10/2008
Weber, Jennifer L.	Chief Human Resources Officer	11/10/2008
Young, Steven Keith	Chief Financial Officer	4/3/2006
Young, Steven Keith	Controller	4/3/2006

CURRENT DUKE ENERGY CORPORATION VICE PRESIDENTS AND ABOVE as of 5/05/2011

Appointed Entity	Type	Date First Elected
Bates, Richard B	Vice President, Mergers and Acquisitions	3/1/2008
Bowman, Roberta Bromberg	Senior Vice President and Chief Sustainability Officer	3/1/2008
Browning, Jeffery G.	Senior Vice President, Audit Services and Chief Ethics and Compliance Officer	6/1/2010
Butler, Keith Gerard	Senior Vice President, Tax	4/3/2006
Caldwell, Myron Lawing	Senior Vice President, Financial Planning and Analysis	10/1/2009
Daji, Swati V.	Chief Risk Officer	10/1/2009
Daji, Swati V.	Vice President, Global Risk Management and Insurance	10/1/2009
De May, Stephen Gerard	Treasurer	11/15/2007
De May, Stephen Gerard	Senior Vice President, Investor Relations	10/1/2009
Good, Lynn J.	Chief Financial Officer	7/1/2009
Good, Lynn J.	Group Executive	11/15/2007
Jamil, Dhiaa M.	Group Executive and Chief Nuclear Officer	2/18/2008
Jamil, Dhiaa M.	Chief Generation Officer	7/2/2009
Maltz, David S.	Vice President, Legal and Assistant Corporate Secretary	12/19/2006
Manes, Gianna M.	Chief Customer Officer	5/16/2010
Manes, Gianna M.	Senior Vice President	5/16/2010
Manly, Marc E.	Corporate Secretary	12/1/2008
Manly, Marc E.	Group Executive and Chief Legal Officer	4/3/2006
Marshall, Beverly Kaye	Vice President, Federal Policy and Government Affairs	4/3/2006
Mohler, David W.	Chief Technology Officer	4/3/2006
Mohler, David W.	Senior Vice President	9/1/2009
Mullinax, A. R.	Senior Vice President and Chief Information Officer	4/3/2006
Reising, Ronald R.	Senior Vice President, Supply Chain and Chief Procurement Officer	12/19/2006
Ringel, Robert J.	Vice President, Legal and Assistant Corporate Secretary	12/19/2006
Rogers, James E.	Chairman	1/2/2007

Rogers, James E.	President and Chief Executive Officer	4/3/2006
Stowell, John L.	Vice President, Environmental Health and Safety Policy	12/19/2006
Trent, B. Keith	Group Executive	4/3/2006
Trent, B. Keith	President, Commercial Businesses	7/2/2009
Tyndall, William F.	Senior Vice President, Federal Government and Regulatory Affairs	4/1/2009
Weber, Jennifer L.	Group Executive, Human Resources and Corporate Relations	1/1/2011
Young, Steven Keith	Senior Vice President and Controller	4/3/2006

STAFF-DR-01-028

REQUEST:

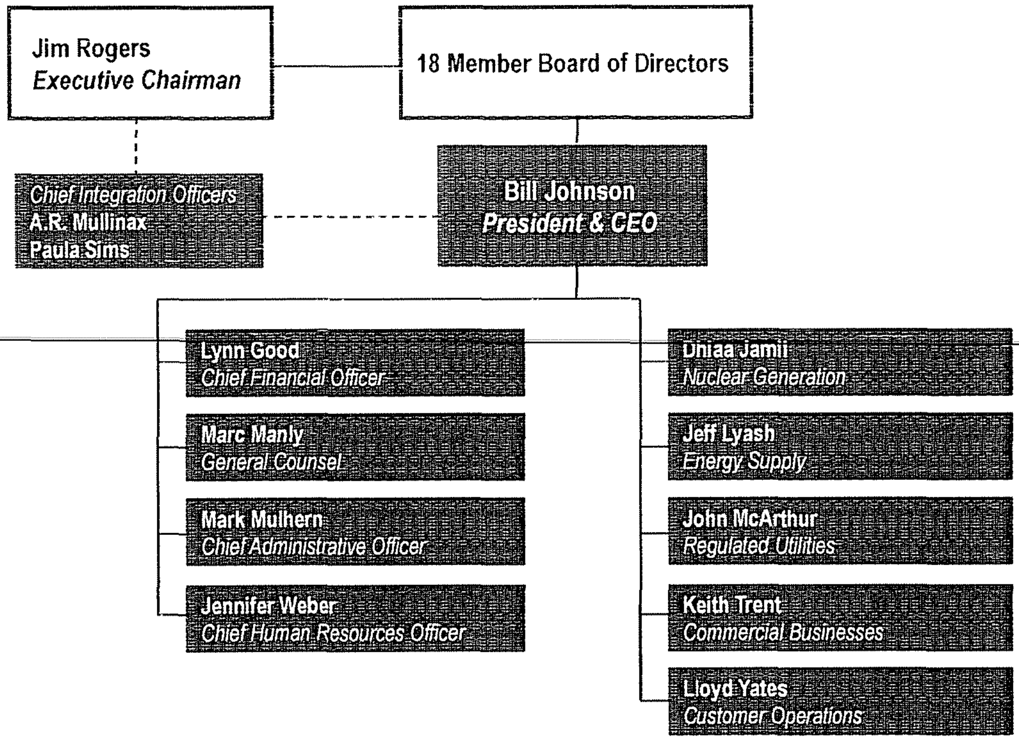
Provide all post-merger anticipated changes to the organizational charts provides in response to the preceding request. Also indicate where one person is anticipated to occupy two or more positions within the same entitiy or across multiple entities.

RESPONSE:

See Staff-DR-01-028 Attachment.

PERSON RESPONSIBLE: Legal

Top Tier Leaders of the Combined Company



Jim Rogers
Executive Chairman

18 Member Board of Directors

Chief Integration Officers
A.R. Mullinax
Paula Sims

Bill Johnson
President & CEO

Lynn Good
Chief Financial Officer

Marc Manly
General Counsel

Mark Mulhern
Chief Administrative Officer

Jennifer Weber
Chief Human Resources Officer

Dhiaa Jamil
Nuclear Generation

Jeff Lyash
Energy Supply

John McArthur
Regulated Utilities

Keith Trent
Commercial Businesses

Lloyd Yates
Customer Operations

Additional Information and Where To Find It

This document does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction In connection with the proposed merger between Duke Energy and Progress Energy, Duke Energy will file with the SEC a Registration Statement on Form S-4 that will include a joint proxy statement of Duke Energy and Progress Energy that also constitutes a prospectus of Duke Energy Duke Energy and Progress Energy will deliver the joint proxy statement/prospectus to their respective shareholders **Duke Energy and Progress Energy urge investors and shareholders to read the joint proxy statement/prospectus regarding the proposed merger when it becomes available, as well as other documents filed with the SEC, because they will contain important information**. You may obtain copies of all documents filed with the SEC regarding this transaction, free of charge, at the SEC's website (www.sec.gov). You may also obtain these documents, free of charge, from Duke Energy's website (www.duke-energy.com) under the heading "Investors" and then under the heading "Financials/SEC Filings." You may also obtain these documents, free of charge, from Progress' website (www.progress-energy.com) under the tab "Investors" and then under the heading "SEC Filings."

Participants in The Merger Solicitation

Duke Energy, Progress Energy, and their respective directors, executive officers and certain other members of management and employees may be soliciting proxies from Duke Energy and Progress Energy shareholders in favor of the merger and related matters Information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of Duke Energy and Progress Energy shareholders in connection with the proposed merger will be set forth in the joint proxy statement/prospectus when it is filed with the SEC. You can find information about Duke Energy's executive officers and directors in its definitive proxy statement filed with the SEC on March 22, 2010 You can find information about Progress Energy's executive officers and directors in its definitive proxy statement filed with the SEC on March 31, 2010. Additional information about Duke Energy's executive officers and directors and Progress Energy's executive officers and directors can be found in the above-referenced Registration Statement on Form S-4 when it becomes available. You can obtain free copies of these documents from Duke Energy and Progress Energy using the contact information above