

the United States having a combined generating capability of more than 21,900 megawatts. Through direct and indirect subsidiaries, Progress Energy is also engaged in various nonutility businesses.

Progress Energy requests authority to acquire, directly or indirectly through one or more subsidiaries, a membership interest in PowerTree Carbon Company, LLC ("PowerTree Carbon"). The initial capital contribution of Progress Energy would be \$100,000. Progress Energy also requests authority to sell all or a portion of its membership interest in PowerTree Carbon at any time to any of its associate companies.

PowerTree Carbon, a Delaware limited liability company, was organized in cooperation with the U.S. Department of Energy ("DOE"). It is designed to facilitate investments by energy companies such as Progress Energy in forestation projects in the Lower Mississippi River Valley and possibly other sites.

One proven means for reducing greenhouse gases is to use trees to remove CO<sub>2</sub> from the atmosphere and store it in tree biomass and roots and soil. PowerTree Carbon is part of an industry-wide effort to voluntarily address climate change through measures designed to reduce greenhouse gas emissions in response to President Bush's recent "Climate VISION" plan, or Climate, Voluntary Innovative Sector Initiatives: Opportunities Now. Climate VISION is the first step in the President's policy of encouraging industry to produce voluntary cuts in greenhouse gas emissions. The Bush Administration has also proposed, as part of its Global Climate Change program, the creation of transferable emission control credits for measures that reduce greenhouse gas emissions.

PowerTree Carbon has obtained commitments totaling approximately \$3.5 million from approximately twenty-five electric utilities, electric utility holding companies and other energy concerns that will be used to fund six forestation projects located in Louisiana, Mississippi and Arkansas.<sup>1</sup>

These projects will provide multiple environmental benefits, including removing from the atmosphere and storing over 2 million tons of CO<sub>2</sub> over the projects' 100-year lifetimes. Other benefits will include: restoring habitat for birds and animals; reducing fertilizer inputs to waters; and stabilizing soils. Two of the projects will involve purchase and donation of land to the U.S. Fish & Wildlife Service, while other projects will involve obtaining easements for tree planting on private land. The contributions of the members to PowerTree Carbon will be utilized for land acquisition and to pay the cost of planting tree seedlings. It is estimated that these projects will provide carbon benefits of more than 400 and 450 tons of CO<sub>2</sub> per acre by years 70 and 100, respectively, at a cost of less than two dollars per ton.

PowerTree Carbon was organized as a for-profit limited liability company ("LLC"), to allow carbon or CO<sub>2</sub> reduction credits, if and when they become available, to be more readily transferred. The LLC structure will also allow members to take advantage of tax benefits of land donation. Although formed as a for-profit LLC, PowerTree Carbon is essentially a passive medium for making investments in projects that are not expected to have any operating revenues, and will not engage in any active business operations.

Under the Operating Agreement of PowerTree Carbon ("Operating Agreement"), the business and affairs of the company shall be managed by its board of managers ("Board"). Each member that commits to make a capital contribution of at least \$100,000 is entitled to appoint one representative to the Board. In general, actions by the Board may be taken by a majority of the managers present at a meeting. However, certain actions of the Board or of any individual manager or any officer require authorization by a two-thirds vote of the full board. These include, among other actions: the sale, exchange or other disposition of any of the assets of the company greater than \$20,000 in value; the commencement of a voluntary bankruptcy proceeding; the declaration or making of any distributions to members; the incurrence of any indebtedness by the company; capital expenditures

exceeding \$20,000; and the acquisition or lease of any real property and any sale of, donation, lease or sublease affecting real property owned by the company.

New members would be admitted to PowerTree Carbon only upon the unanimous approval of the then existing members. Upon admission of any new member, the percentage interests of existing members shall be reduced accordingly. A member may transfer all or a portion of its membership interest only upon receiving approval of two-thirds of the existing members, except that, without the prior approval of the other members, a member may transfer all or a part of its membership interest to an affiliate of such member or to any other member. A two-thirds vote of the members also would be required to elect officers of PowerTree Carbon. The members have equal voting rights, regardless of their percentage interests in PowerTree Carbon.

The Operating Agreement provides that, so long as any member is a registered holding company or subsidiary company thereof, any voting rights received or otherwise obtained by that member equal to or exceeding ten percent of the total outstanding voting rights in PowerTree Carbon shall be automatically (and without any requirement for consent on the part of the affected member) allocated to the other members in equal portions such that no registered holding company member will hold ten percent or more of voting rights in PowerTree Carbon. In addition, any member may elect to limit its voting rights to less than five percent of the total voting rights in PowerTree Carbon, in which case the voting rights of such member or members equal to or exceeding five percent of the total voting rights in PowerTree Carbon would be automatically allocated in equal portions to the other members.

The Operating Agreement further provides that each member (or its designee(s) or transferee(s)) shall be entitled to claim a *pro rata* share of all carbon that is determined to be sequestered by PowerTree Carbon's efforts to which legal rights, if any, have been obtained ("Carbon Reductions") based on the member's percentage interest in PowerTree Carbon. A member may generally utilize its share of any Carbon Reductions in connection with its participation in any greenhouse gas reporting or regulatory program or transfer or assign such Carbon Reductions to one or more other persons.

<sup>1</sup> Progress Energy is one of eleven registered holding companies that have committed, either directly or through subsidiaries, to make capital contributions to PowerTree Carbon. The others are: Ameren Corporation; American Electric Power Company, Inc.; Cinergy Corp.; Dominion Resources, Inc.; Entergy Corporation; Exelon Corporation; FirstEnergy Corp.; Great Plains Energy Incorporated; PEPCO Holdings, Inc.; and Xcel Energy, Inc. Other energy companies that have committed to make capital contributions are: CLECO Corporation; The Detroit Edison Company; Duke Energy Corporation; Minnesota Power (a division of ALLETE, Inc.); OGE Energy Corp.;

Oglethorpe Power Corporation; Peabody Energy Corporation; Pinnacle West Capital Corporation; Public Service Electric and Gas Company; Public Service Company of New Mexico; Reliant Resources, Inc.; Tennessee Valley Authority; TXU Corp.; We Energies (the trade name of Wisconsin Electric Power Company and Wisconsin Gas Company); and Wisconsin Public Service Corporation.