

preferred securities) (together, "Preferred Securities"), equity-linked securities ("Equity-Linked Securities), and commercial paper, unsecured promissory notes and other forms of unsecured indebtedness having maturities of less than one year ("Short-term Debt") will not exceed competitive market rates available at the time of issuance for securities having the same or reasonably similar terms and conditions issued by similar companies of reasonably comparable credit quality; provided that in no event will the effective cost of capital (1) on any series of Long-term Debt exceed 500 basis points over a U.S. Treasury security having a remaining term equal to the term of such series, (2) on any series of Preferred Securities or Equity-Linked Securities exceed 600 basis points over a U.S. Treasury security having a remaining term equal to the term of such series, and (3) on Short-term Debt exceed 500 basis points over the London Interbank Offered Rate for maturities of less than one year.

B. Maturity

The maturity date of any Long-term Debt will not exceed 50 years after issuance. Preferred Securities and Equity-Linked Securities will be redeemed no later than 50 years after the issuance, unless converted into shares of Common Stock, except that Preferred Stock issued directly by Progress Energy may be perpetual in duration.

C. Issuance Expenses

The underwriting fees, commissions or other similar remuneration paid in connection with the non-competitive issue, sale or distribution of securities pursuant to this Application will not exceed the greater of (1) 5% of the principal or total amount of the securities being issued or (2) issuance expenses that are generally paid at the time of the pricing for sales of the particular issuance, having the same or reasonably similar terms and conditions issued by similar companies of reasonably comparable credit quality.

D. Common Equity Ratio

At all times during the Authorization Period, Progress Energy and each Utility Subsidiary will maintain common equity of at least 30% of its consolidated capitalization (common equity, preferred stock, long-term debt and short-term debt); provided that Progress Energy will in any event be authorized to issue Common Stock (including pursuant to the Stock Plans) to the extent authorized by Commission order.

E. Investment Grade Ratings

Applicants further represent that, except for securities issued for the purpose of funding Money Pool operations, no guarantees or other securities, other than Common Stock, may be issued in reliance upon the authorization that may be granted by the Commission in accordance with this Application, unless (1) the security to be issued, if rated, is rated investment grade; (2) all outstanding securities of the issuer that are rated are rated investment grade; and (3) all outstanding securities of the top level registered holding company that are rated are rated investment grade. For purposes of this provision, a security will be deemed to be rated "investment grade" if it is rated investment grade by at least one nationally recognized statistical rating organization, as that term is used in paragraphs (c)(2)(vi)(E), (F) and (H) of rule 15c3-1 under the Securities Exchange Act of 1934. Applicants request that the Commission reserve jurisdiction over the issuance of any such securities that are rated below investment grade. Applicants further request that the Commission reserve jurisdiction over the issuance of any guarantee or other securities at any time that the conditions set forth in clauses (1) through (3) above are not satisfied.

F. Use of Proceeds

The proceeds from the sale of securities in external financing transactions will be used for general corporate purposes including (1) financing, in part, of the capital expenditures of Subsidiaries, (2) financing working capital requirements of Progress Energy and its Subsidiaries, (3) the acquisition, retirement or redemption under rule 42 of securities previously issued by Progress Energy or its Subsidiaries or as otherwise authorized by Commission, (4) direct or indirect investments in companies authorized under the Act or by rule, including investments in EWGs and "energy-related companies" under rule 58, and (5) other lawful purposes. The Applicants represent that no such financing proceeds will be used to acquire the securities of a new subsidiary unless such acquisition is consummated in accordance with an order of the Commission or an available exemption under the Act.

IV. Progress Energy External Financing

Progress Energy requests authority to increase its capitalization by issuing and selling from time to time during the Authorization Period, directly or indirectly through one or more

Financing Subsidiaries: (1) additional shares of Common Stock and/or options, warrants, forward equity purchase contracts, or other rights that are exercisable or exchangeable for or convertible into Common Stock, (2) Preferred Securities and Equity-Linked Securities, and (3) Long-term Debt, in an aggregate amount not to exceed \$2.8 billion (excluding securities issued for purposes of refunding or replacing other outstanding long-term securities where Progress Energy's capitalization is not increased as a result) ("External Financing Limit"). In addition, Progress Energy requests authorization to issue and sell Short-term Debt in an aggregate principal amount at any time outstanding not to exceed \$1.5 billion.

Progress Energy may issue and sell Common Stock (and/or options, warrants, forward equity purchase contracts, or other rights that are exercisable or exchangeable for or convertible into Common Stock), Preferred Securities, Equity-Linked Securities and Long-term Debt: (1) Through underwriters, initial purchasers or dealers, (2) through agents, (3) directly to a limited number of purchasers or a single purchaser, or (4) directly to employees of Progress Energy or its Subsidiaries (or to trusts established for their benefit), shareholders, officers and directors under the Stock Plans. If underwriters are used, the securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The securities may be offered to the public either through underwriting syndicates (which may be represented by a managing underwriter or underwriters designated by Progress Energy) or directly by one or more underwriters acting alone, or may be sold directly by Progress Energy or through agents designated by Progress Energy from time to time. If dealers are utilized, Progress Energy will sell the securities to the dealers, as principals. Any dealer may then resell the securities to the public at varying prices to be determined by the dealer at the time of resale. If Common Stock is being sold in an underwritten offering, Progress Energy may grant the underwriters a "green shoe" option permitting the purchase from Progress Energy at the same price additional shares then being offered solely for the purpose of covering over-allotments.