

B. Long-term Debt of NCNG

NCNG requests authorization (for so long as it shall remain a subsidiary of Progress Energy) to make direct borrowings from Progress Energy in an amount which, when added to borrowings by NCNG under the Utility Money Pool shall not exceed \$750 million. The interest rate and maturity on any note evidencing direct borrowings from Progress Energy will be designed to parallel the effective cost of capital of Progress Energy. The maturity on any note issued to Progress Energy will not exceed 50 years from the date of issuance.

VI. Financing by Nonutility Subsidiaries

If a Nonutility Subsidiary that is not wholly-owned engages in activities related to the development and expansion of energy, transportation, telecommunications or other functionally-related, nonutility businesses, authority is requested for Progress Energy or a Nonutility Subsidiary, as the case may be, to make loans to the non-wholly owned subsidiaries at interest rates and maturities designed to provide a return to the lender of not less than its effective cost of capital. The borrower will not sell any services to any associate Nonutility Subsidiary unless the associate Nonutility Subsidiary falls within one of the categories of companies to which goods and services may be sold on a basis other than "at cost" under the terms of the December 2000 Order. Furthermore, if any loans are made, Progress Energy will include in the next certificate filed under rule 24 in this proceeding substantially the same information as that required on Form U-6B-2 with respect to the transaction.

VII. Guarantees

A. Progress Energy Guarantees

Progress Energy requests authorization to enter into guarantees, obtain letters of credit, enter into expense agreements or otherwise provide credit support (collectively, "Progress Guarantees") with respect to the obligations of any Subsidiary as may be appropriate to enable the Subsidiary to carry on in the ordinary course of its business, in an aggregate principal amount not to exceed \$3 billion outstanding at any one time; *provided however*, that the amount of any Progress Guarantees in respect of obligations of any Subsidiaries shall also be subject to the limitations of rule 53(a)(1) or rule 58(a)(1), as applicable.

Progress Energy proposes to charge each Subsidiary a fee for each guarantee

provided on its behalf that is not greater than the cost, if any, of obtaining the liquidity necessary to perform the guarantee (for example, bank line commitment fees or letter of credit fees, plus other transactional expenses) for the period of time the guarantee remains outstanding.

The debt of a Financing Subsidiary guaranteed by Progress Energy will comply with the External Financing Limit. However, in order to avoid double counting the amount of any Progress Guarantee issued with respect to securities issued by a Financing Subsidiary will not be counted against the proposed limit on Progress Guarantees.

Progress Guarantees may, in some cases, be provided to support obligations of Subsidiaries that are not readily susceptible of exact quantification or that may be subject to varying quantification. In that event, Progress Energy will determine the exposure under the guarantee for purposes of measuring compliance with the proposed limit on Progress Guarantees set forth above by appropriate means, including estimation of exposure based on loss experience or projected potential payment amounts. Any estimates will be made in accordance with generally accepted accounting principles, and will be reevaluated periodically.

B. Nonutility Subsidiary Guarantees

In addition to guarantees that may be provided by Progress Energy, Nonutility Subsidiaries request authority to provide to other Nonutility Subsidiaries guarantees and other forms of credit support ("Nonutility Guarantees") in an aggregate principal amount not to exceed \$500 million outstanding at any one time, in addition to any guarantees and other forms of credit support that are exempt under rule 45(b) and rule 52(b); *provided however*, that the amount of Nonutility Guarantees in respect of obligations of any Subsidiary that is an "energy-related company" as that term is defined under rule 58 shall remain subject to the limitations of rule 58(a)(1). The Nonutility Subsidiary providing any credit support may charge its associate company a fee for each guarantee provided on its behalf determined in the same manner as specified above.

C. Guarantees Issued by Florida Progress and Its Nonutility Subsidiaries

Florida Progress has in the past provided guarantees with respect to certain long-term and short-term indebtedness of Progress Capital and preferred securities issued by Progress

Funding (via a special purpose trust), the proceeds of which are used to provide financing for Florida Progress's other subsidiaries. In addition, Florida Progress and Progress Capital have provided guarantees and/or other forms of credit support to third parties on behalf of Florida Progress's Nonutility Subsidiaries in the form of standby letters of credit, surety bonds, and guarantees of performance under leases and other agreements. Florida Progress and its Nonutility Subsidiaries request authorization to maintain in effect all of the outstanding guarantees and other forms of credit support described above, and to amend, renew, extend or replace such guarantees, as necessary. Further, the Applicants request that such guarantees and other forms of credit support not count against the \$500 million limit proposed above on future Nonutility Guarantees.

VIII. Hedging Transactions

A. Interest Rate Hedges

Progress Energy, and to the extent not exempt under rule 52, the Subsidiaries, request authorization to enter into interest rate hedging transactions with respect to existing indebtedness ("Interest Rate Hedges"), subject to certain limitations and restrictions, in order to reduce or manage interest rate cost. Interest Rate Hedges would only be entered into with counterparties whose senior debt ratings, or the senior debt ratings of the parent companies of the counterparties, as published by S&P, are equal to or greater than BBB, or an equivalent rating from Moody's, Fitch-Ratings, or Duff and Phelps ("Approved Counterparties").

Interest Rate Hedges will involve the use of financial instruments commonly used in today's capital markets, such as interest rate swaps, caps, collars, floors, and structured notes (*i.e.*, a debt instrument in which the principal and/or interest payments are indirectly linked to the value of an underlying asset or index), or transactions involving the purchase or sale, including short sales, of U.S. Treasury obligations. The transactions would be for fixed periods and stated notional amounts. In no case will the notional principal amount of any interest rate swap exceed that of the underlying debt instrument and related interest rate exposure. Thus the Applicants will not engage in speculative transactions. Fees, commissions and other amounts payable to the counterparty or exchange (excluding, however, the swap or option payments) in connection with an Interest Rate Hedge will not exceed those generally obtainable in