

competitive markets for parties of comparable credit quality.

B. Anticipatory Hedges

Progress Energy and the Subsidiaries request authorization to enter into interest rate hedging transactions with respect to anticipated debt offerings (the "Anticipatory Hedges"), subject to certain limitations and restrictions. Anticipatory Hedges would only be entered into with Approved Counterparties, and would be utilized to fix and/or limit the interest rate risk associated with any new issuance through (1) a forward sale of exchange-traded U.S. Treasury futures contracts, U.S. Treasury obligations and/or a forward swap (each a "Forward Sale"), (2) the purchase of put options on U.S. Treasury obligations (a "Put Options Purchase"), (3) a Put Options Purchase in combination with the sale of call options on U.S. Treasury obligations (a "Zero Cost Collar"), (4) transactions involving the purchase or sale, including short sales, of U.S. Treasury obligations, or (5) some combination of a Forward Sale, Put Options Purchase, Zero Cost Collar and/or other derivative or cash transactions, including, but not limited to structured notes, caps and collars, appropriate for the Anticipatory Hedges.

Anticipatory Hedges may be executed on-exchange ("On-Exchange Trades") with brokers through the opening of futures and/or options positions traded on the Chicago Board of Trade ("CBOT"), the opening of over-the-counter positions with one or more counterparties ("Off-Exchange Trades"), or a combination of On-Exchange Trades and Off-Exchange Trades. Progress Energy or a Subsidiary will determine the optimal structure of each Anticipatory Hedge transaction at the time of execution. Progress Energy or a Subsidiary may decide to lock in interest rates and/or limit its exposure to interest rate increases.

The Applicants will comply with Statement of Financial Accounting Standard ("SFAS") 133 (Accounting for Derivative Instruments and Hedging Activities) and SFAS 138 (Accounting for Certain Derivative Instruments and Certain Hedging Activities) or other standards relating to accounting for derivative transactions as are adopted and implemented by the Financial Accounting Standards Board ("FASB"). The Applicants represent that each Interest Rate Hedge and each Anticipatory Hedge will qualify for hedge accounting treatment under the current FASB standards in effect and as determined as of the date such Interest Rate Hedge or Anticipatory Hedge is

entered into. The Applicants will also comply with any future FASB financial disclosure requirements associated with hedging transactions.

IX. Money Pools

Progress Energy and the Utility Subsidiaries request authorization to continue to maintain and fund the Utility Money Pool, and CP&L and NCNG also request authorization to make unsecured short-term borrowings from the Utility Money Pool. The Utility Subsidiaries request authorization to contribute surplus funds to the Utility Money Pool, and to lend and extend credit to (and acquire promissory notes from) one another through the Utility Money Pool. In addition, Progress Energy and the Nonutility Subsidiaries request authorization to continue to maintain and fund the Nonutility Money Pool. The Nonutility Money Pool activities of all of the Nonutility Subsidiaries are exempt from the prior approval requirements of the Act under rules 45(b) and 52. Progress Energy is requesting authorization to contribute surplus funds and/or to lend and extend credit to (1) the Utility Subsidiaries through the Utility Money Pool and (2) the Nonutility Subsidiaries through the Nonutility Money Pool.

A. Utility Money Pool

Under the Utility Money Pool agreement, short-term funds are available from the following sources for short-term loans to the Utility Subsidiaries from time to time: (1) Surplus funds in the treasuries of Utility Money Pool participants other than Progress Energy; (2) surplus funds in the treasury of Progress Energy (funds in clauses (1) and (2) being referred to as "Internal Funds"); and (3) proceeds from bank borrowings by Utility Money Pool participants or the sale of commercial paper by Progress Energy or the Utility Subsidiaries for loan to the Utility Money Pool (the "External Funds").

Funds are made available from sources, and in the order, as Progress Service, as administrator for the Utility Money Pool, may determine would result in a lower cost of borrowing, consistent with the individual borrowing needs and financial standing of the companies providing funds to the pool. The determination of whether a Utility Money Pool participant at any time has surplus funds to lend to the Utility Money Pool is made by the participant's chief financial officer or treasurer, or their designee, on the basis of cash flow projections and other relevant factors, and in the participant's sole discretion.

The cost of compensating balances, if any, and fees paid to banks to maintain credit lines and accounts by Utility Money Pool participants lending External Funds to the Utility Money Pool are initially paid by the participant maintaining the line. A portion of such costs—or all of such costs if a Utility Money Pool participant establishes a line of credit solely for purposes of lending any External Funds obtained into the Utility Money Pool—are retroactively allocated every month to companies borrowing the External Funds in proportion to each participant's estimated peak short-term borrowing requirement.

Borrowings by Utility Money Pool participants are made *pro rata* from each participant that lends funds to the Utility Money Pool, in the proportion that the total amount loaned by each such lending company bears to the total amount then loaned through the Utility Money Pool. On any day when more than one fund source (e.g., if there are External Funds as well as Internal Funds), with different rates of interest, is used to fund loans through the Utility Money Pool, each borrower would borrow *pro rata* from each such fund source in the Utility Money Pool in the same proportion that the amount of funds provided by that fund source bears to the total amount of short-term funds available to the Utility Money Pool. CP&L and NCNG (for so long as it remains a subsidiary of Progress Energy) each request authorization to borrow up to \$400 million at any time outstanding under the Utility Money Pool. No loans through the Utility Money Pool may be made to, and no borrowings through the Utility Money Pool may be made by, Progress Energy.

If only Internal Funds make up the funds available in the Utility Money Pool, the interest rate applicable and payable to or by Utility Subsidiaries for all loans of Internal Funds would be equal to the rate for high-grade unsecured 30-day commercial paper sold through dealers by major corporations as quoted in *The Wall Street Journal*.

If only External Funds comprise the funds available in the Utility Money Pool, the interest rate applicable to loans of External Funds would be equal to the lending company's cost for the External Funds (or, if more than one Utility Money Pool participant had made available External Funds on such day, the applicable interest rate would be a composite rate equal to the weighted average of the cost incurred by the respective Utility Money Pool participants for the External Funds).