

In cases where both Internal Funds and External Funds are concurrently borrowed through the Utility Money Pool, the rate applicable to all loans comprised of such "blended" funds would be a composite rate equal to the weighted average of (1) the cost of all Internal Funds contributed by Utility Money Pool participants (determined as set forth in the second-preceding paragraph above) and (2) the cost of all such External Funds (determined as set forth in the immediately preceding paragraph above). In circumstances where Internal Funds and External Funds are available for loans through the Utility Money Pool, loans may be made exclusively from Internal Funds or External Funds, rather than from a "blend" of such funds, to the extent it is expected that such loans would result in a lower cost of borrowing.

Funds not required by the Utility Money Pool to make loans (with the exception of funds required to satisfy the Utility Money Pool's liquidity requirements) would ordinarily be invested in one or more short-term investments, including: (1) Interest-bearing accounts with banks; (2) obligations issued or guaranteed by the U.S. government and/or its agencies and instrumentalities, including obligations under repurchase agreements; (3) obligations issued or guaranteed by any state or political subdivision thereof, provided that such obligations are rated not less than "A" by a nationally recognized rating agency; (4) commercial paper rated not less than "A-1" or "P-1" or their equivalent by a nationally recognized rating agency; (5) money market funds; (6) bank certificates of deposit; (7) Eurodollar funds; and (8) such other investments as are permitted by section 9(c) of the Act and rule 40.

The interest and investment income earned on loans and investments of surplus funds is allocated among the participants in the Utility Money Pool in accordance with the proportion each participant's contribution bears to the total amount of funds in the Utility Money Pool and the cost of funds contributed to the Utility Money Pool by the participant. Each Applicant receiving a loan through the Utility Money Pool is required to repay the principal amount, together with interest accrued thereon, on demand and in any event no later than one year after the date of the loan. All loans made through the Utility Money Pool may be prepaid by the borrower without premium or penalty.

B. Nonutility Money Pool

The Nonutility Money Pool is operated and funded in substantially the same manner as the Utility Money Pool, except that funds contributed by Progress Energy to the Money Pools are made available to the Utility Money Pool first and then to the Nonutility Money Pool. The manner of calculating interest on funds contributed to, and borrowings from, the Nonutility Money Pool is as described above under Utility Money Pools. No loans through the Nonutility Money Pool may be made to, and no borrowings through the Nonutility Money Pool may be made by, Progress Energy.

The current participants in the Nonutility Money Pool are Progress Energy, Progress Service, SRS, PV Holdings, Progress Ventures, and Progress Capital. It is proposed that the following additional Nonutility Subsidiaries be permitted to participate in the Nonutility Money Pool: Progress Real Estate, Progress Fuels, Progress Solutions, Progress Telecommunications, and Caronet. The Applicants request that the Commission reserve jurisdiction over the addition of any other existing or future Nonutility Subsidiaries as participants in the Nonutility Money Pool.

X. Other Transactions

A. Financing Subsidiaries

The Applicants request authority to acquire, directly or indirectly, the equity securities of one or more Financing Subsidiaries created specifically for the purpose of facilitating the financing of the authorized and exempt activities (including exempt and authorized acquisitions) of Progress Energy and the Subsidiaries through the issuance of Long-term Debt or Preferred Securities to third parties. Any Financing Subsidiary organized in accordance with the authority granted by the Commission in this proceeding shall be organized only if, in management's opinion, the creation and utilization of such Financing Subsidiary will likely result in tax savings, increased access to capital markets and/or lower cost of capital to the parent company of the Financing Subsidiary.

Authorization also is requested for any Financing Subsidiary to dividend, loan or otherwise transfer the proceeds of a financing to, or as directed by, the Financing Subsidiary's parent company; *provided however*, that a Financing Subsidiary of a Utility Subsidiary will dividend, loan or otherwise transfer proceeds of a financing only to a Utility Subsidiary.

Progress Energy and its Subsidiaries request authorization to guarantee or enter into expense agreements in respect of the obligations of any Financing Subsidiaries that they organize, to the extent not otherwise exempt under rules 45(b)(7) and 52. The amount of any equity or long-term debt securities issued by any Financing Subsidiary shall be counted against any limitation on the amounts of similar types of securities that may be issued directly by the parent company of a Financing Subsidiary, as set forth in this Application or in any other application/declaration that may be filed in the future, to the extent that such securities are guaranteed by such parent company. In that case, however, the guaranty by the parent company would not also be counted against the limitations on Progress Guarantees or Nonutility Guarantees, as the case may be.

Progress Energy and, to the extent not exempt under rule 52, Subsidiaries also request authorization to issue their subordinated unsecured notes ("Subordinated Notes") to any Financing Subsidiary to evidence the loan of financing proceeds by a Financing Subsidiary to its parent company. The principal amount, maturity and interest rate on any such Subordinated Notes will be designed to parallel the amount, maturity and interest or distribution rate on the securities issued by a Financing Subsidiary in respect of which the Subordinated Note is issued.

B. Investments in Energy-Related Assets

Progress Energy currently has authority to acquire or construct in one or more transactions from time to time nonutility energy assets in the United States, including, without limitation, natural gas production, gathering, processing, storage and transportation facilities and equipment, liquid oil reserves and storage facilities, and associated facilities (collectively, "Energy-Related Assets"), that are incidental to the energy marketing, brokering and trading operations of Progress Energy's subsidiaries, subject to an investment limitation of \$1 billion ("Investment Limitation").

Progress Energy seeks to extend its authorization to invest in Energy-Related Assets (or in the equity securities of companies substantially all of whose assets consist of Energy-Related Assets), subject to the Investment Limitation. Such Energy-Related Assets (or equity securities of companies substantially all of whose assets consist of Energy-Related Assets) may be acquired for cash or in exchange for Common Stock or other securities of