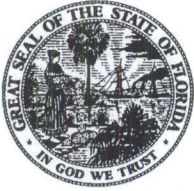


# I. Meeting Packet



**State of Florida**  
Public Service Commission  
**INTERNAL AFFAIRS AGENDA**

Wednesday – January 26, 2011

9:30 a.m.

Room 140 - Betty Easley Conference Center

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1. Approve January 12, 2011, Internal Affairs Meeting Minutes. (Attachment 1)
2. Presentation by Progress Energy Florida on the Duke Energy/Progress Energy Merger. (Attachment 2)
3. Presentation by Staff on Hedging Practices in the Electric Industry. (Attachment 3)
4. Discussion of Sunshine Law. (No attachment)
5. Legislative Update. (No Attachment)
6. Other matters, if any.

TD/sa

OUTSIDE PERSONS WISHING TO ADDRESS THE COMMISSION ON  
ANY OF THE AGENDAED ITEMS SHOULD CONTACT THE  
OFFICE OF THE EXECUTIVE DIRECTOR AT (850) 413-6068.





**State of Florida**  
**Public Service Commission**  
**INTERNAL AFFAIRS MINUTES**

Wednesday – January 12, 2011

9:34 am – 10:10 am

Room 140 - Betty Easley Conference Center

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COMMISSIONERS PRESENT: Chairman Graham  
Commissioner Edgar  
Commissioner Brisé  
Commissioner Balbis  
Commissioner Brown

STAFF PARTICIPATING: Devlin, Hill, Kiser, Fogleman, C. Miller, J. Miller, Ellis,  
Pennington

1. Approve December 14, 2010, Internal Affairs Meeting Minutes.

The minutes were approved.

Commissioners participating: Graham, Edgar, Brisé, Balbis

2. Draft Reply Comments to FCC regarding Universal Service Reform and the Creation of a Mobility Fund. Approval of Comments is sought. Reply comments are due January 18<sup>th</sup>.

The Commissioners approved the draft reply comments. Staff was directed to provide a copy of the comments to Florida Congressional delegation.

Commissioners participating: Graham, Edgar, Brisé, Balbis, Brown

3. Staff's Review of the 2010 Ten-Year Site Plans. (Deferred from the December 14<sup>th</sup> Internal Affairs.)

The Commissioners approved staff's review of the 2010 Ten-Year Site Plans. Staff was directed to forward copies of the Site Plans to DEP and the FECC.

Commissioners participating: Graham, Edgar, Brisé, Balbis, Brown



4. Discussion of Legislation Filed for the 2011 Session.

Staff briefed the Commissioners on legislative matters of interest to the Commission.

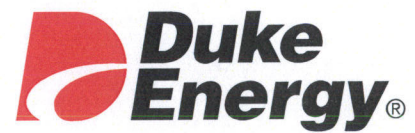
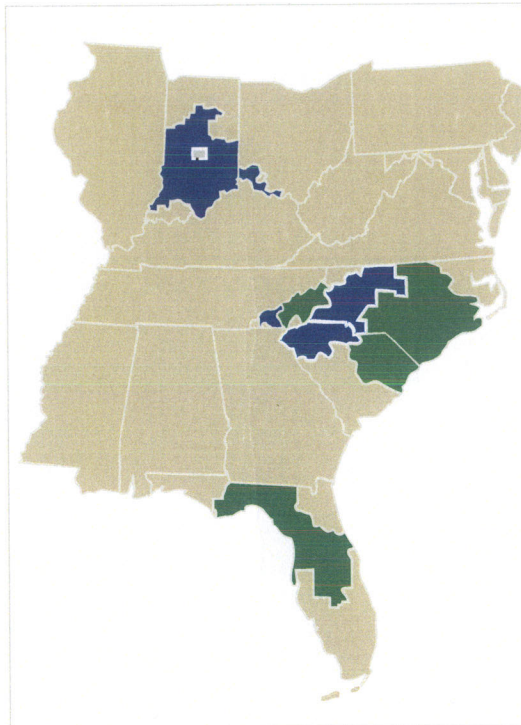
Commissioners participating: Graham, Edgar, Brisé, Balbis, Brown

5. Other matters, if any.

- a. Commissioner Brisé noted that it was one year ago today that Haiti experienced the earthquake that devastated the country, and that the country is still struggling to recover.
- b. Commissioner Balbis questioned what security measures are in place for the Commissioners and staff both in the building, and when they are on the road. Staff will prepare a summary of security measures.
- c. Chairman Graham requested staff review the Sunshine Laws and requirements. A presentation on the requirements and Ex Parte Communication rules will be made at a later Internal Affairs meeting.
- d. Staff will arrange for an overview of the Duke/Progress Energy merger to be presented at a later Internal Affairs meeting.

Commissioners participating: Graham, Edgar, Brisé, Balbis, Brown





## CREATING THE LEADING U.S. UTILITY

Presentation to FPSC Internal Affairs  
January 26, 2011



# Safe Harbor

## SAFE HARBOR STATEMENT

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by words or phrases such as “may,” “will,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “target,” “forecast,” and other words and terms of similar meaning. Forward-looking statements involve estimates, expectations, projections, goals, forecasts, assumptions, risks and uncertainties. Duke Energy and Progress Energy caution readers that any forward-looking statement is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statement. Such forward-looking statements include, but are not limited to, statements about the benefits of the proposed merger involving Duke Energy and Progress Energy, including future financial and operating results, Progress Energy’s or Duke Energy’s plans, objectives, expectations and intentions, the expected timing of completion of the transaction, and other statements that are not historical facts. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include risks and uncertainties relating to: the ability to obtain the requisite Duke Energy and Progress Energy shareholder approvals; the risk that Progress Energy or Duke Energy may be unable to obtain governmental and regulatory approvals required for the merger, or required governmental and regulatory approvals may delay the merger or result in the imposition of conditions that could cause the parties to abandon the merger; the risk that a condition to closing of the merger may not be satisfied; the timing to consummate the proposed merger; the risk that the businesses will not be integrated successfully; the risk that the cost savings and any other synergies from the transaction may not be fully realized or may take longer to realize than expected; disruption from the transaction making it more difficult to maintain relationships with customers, employees or suppliers; the diversion of management time on merger-related issues; general worldwide economic conditions and related uncertainties; the effect of changes in governmental regulations; and other factors discussed or referred to in the “Risk Factors” section of each of Duke Energy’s and Progress Energy’s most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission. These risks, as well as other risks associated with the merger, will be more fully discussed in the joint proxy statement/prospectus that will be included in the Registration Statement on Form S-4 that will be filed with the SEC in connection with the merger. Additional risks and uncertainties are identified and discussed in Progress Energy’s and Duke Energy’s reports filed with the SEC and available at the SEC’s website at [www.sec.gov](http://www.sec.gov). Each forward-looking statement speaks only as of the date of the particular statement and neither Progress Energy nor Duke Energy undertakes any obligation to update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.



## Safe Harbor (cont'd)

### ADDITIONAL INFORMATION AND WHERE TO FIND IT

This document does not constitute an offer to sell or the solicitation of an offer to buy any securities, or a solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. In connection with the proposed merger between Duke Energy and Progress Energy, Duke Energy will file with the SEC a Registration Statement on Form S-4 that will include a joint proxy statement of Duke Energy and Progress Energy that also constitutes a prospectus of Duke Energy. Duke Energy and Progress Energy will deliver the joint proxy statement/prospectus to their respective shareholders. **Duke Energy and Progress Energy urge investors and shareholders to read the joint proxy statement/prospectus regarding the proposed merger when it becomes available, as well as other documents filed with the SEC, because they will contain important information.** You may obtain copies of all documents filed with the SEC regarding this transaction, free of charge, at the SEC's website ([www.sec.gov](http://www.sec.gov)). You may also obtain these documents, free of charge, from Duke Energy's website ([www.duke-energy.com](http://www.duke-energy.com)) under the heading "Investors" and then under the heading "Financials/SEC Filings." You may also obtain these documents, free of charge, from Progress Energy's website ([www.progress-energy.com](http://www.progress-energy.com)) under the tab "Investors" and then under the heading "SEC Filings."

### PARTICIPANTS IN THE MERGER SOLICITATION

Duke Energy, Progress Energy, and their respective directors, executive officers and certain other members of management and employees may be soliciting proxies from Duke Energy and Progress Energy shareholders in favor of the merger and related matters. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of Duke Energy and Progress Energy shareholders in connection with the proposed merger will be set forth in the joint proxy statement/prospectus when it is filed with the SEC. You can find information about Duke Energy's executive officers and directors in its definitive proxy statement filed with the SEC on March 22, 2010. You can find information about Progress Energy's executive officers and directors in its definitive proxy statement filed with the SEC on March 31, 2010. Additional information about Duke Energy's executive officers and directors and Progress Energy's executive officers and directors can be found in the above-referenced Registration Statement on Form S-4 when it becomes available. You can obtain free copies of these documents from Duke Energy and Progress Energy using the contact information above.

## Safe Harbor (cont'd)

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### REG G DISCLOSURE

In addition, today's discussion includes certain non-GAAP financial measures as defined under SEC Regulation G. A reconciliation of those measures to the most directly comparable GAAP measures is available on our Investor Relations websites at [www.duke-energy.com](http://www.duke-energy.com) and [www.progress-energy.com](http://www.progress-energy.com).



# Agenda

- Transaction Overview
- Company Highlights
- Schedule





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# Transaction Overview



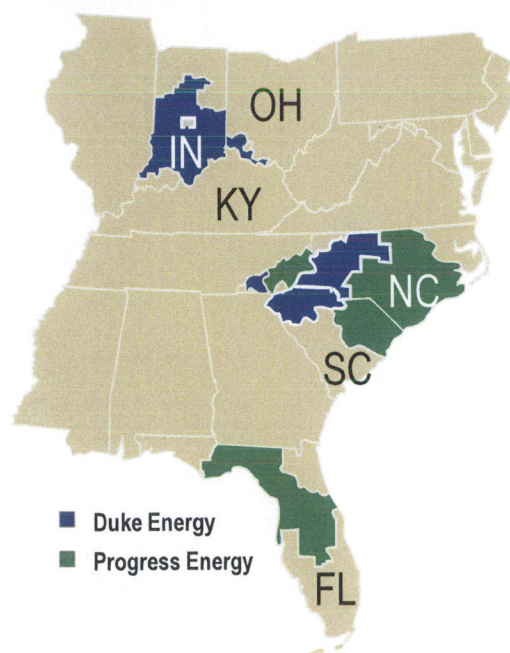
Creating the Leading U.S. Utility – January 26, 2011



# Creating the Largest U.S. Utility

- The combined company will create the largest U.S. utility, with unmatched scale and scope

## Diverse Service Territories



## Combined Statistics

	Duke Energy	Progress Energy	Combined	Rank
Enterprise Value	\$40.2 B	\$25.1 B	\$65.3 B	#1
Market Cap.	\$23.6 B	\$12.8 B	\$36.5 B	#1
Electric Customers	4.0 M	3.1 M	7.1 M	#1
Generation Capacity	35.4 GW <sup>1</sup>	21.8 GW	57.2 GW <sup>1</sup>	#1
Total Assets	\$57.9 B	\$32.7 B	\$90.6 B <sup>2</sup>	#1
Rate Base	\$23 B	\$17 B	\$40 B	#1
Regulated EBIT Mix <sup>3</sup>	77%	100%	85%	N/A

Source: FactSet as 12/31/2010

Note: Customer data as of 12/31/2009; rate base data estimated as of 12/31/2010; total assets and generation capacity as of 09/30/2010

<sup>1</sup> Excludes purchased power and approximately 4 GW of Duke Energy International assets

<sup>2</sup> Total assets are a summation of the two stand-alone companies and do not include any purchase accounting adjustments from this transaction.

<sup>3</sup> Duke Energy's forecasted 2010 adjusted EBIT based upon midpoint of original 2010 adjusted diluted EPS range of \$1.25 - \$1.30; excludes operations labeled as 'Other'; Progress Energy's forecasted 2010 adjusted EBIT based upon midpoint of original 2010 ongoing EPS range of \$2.85 - \$3.05

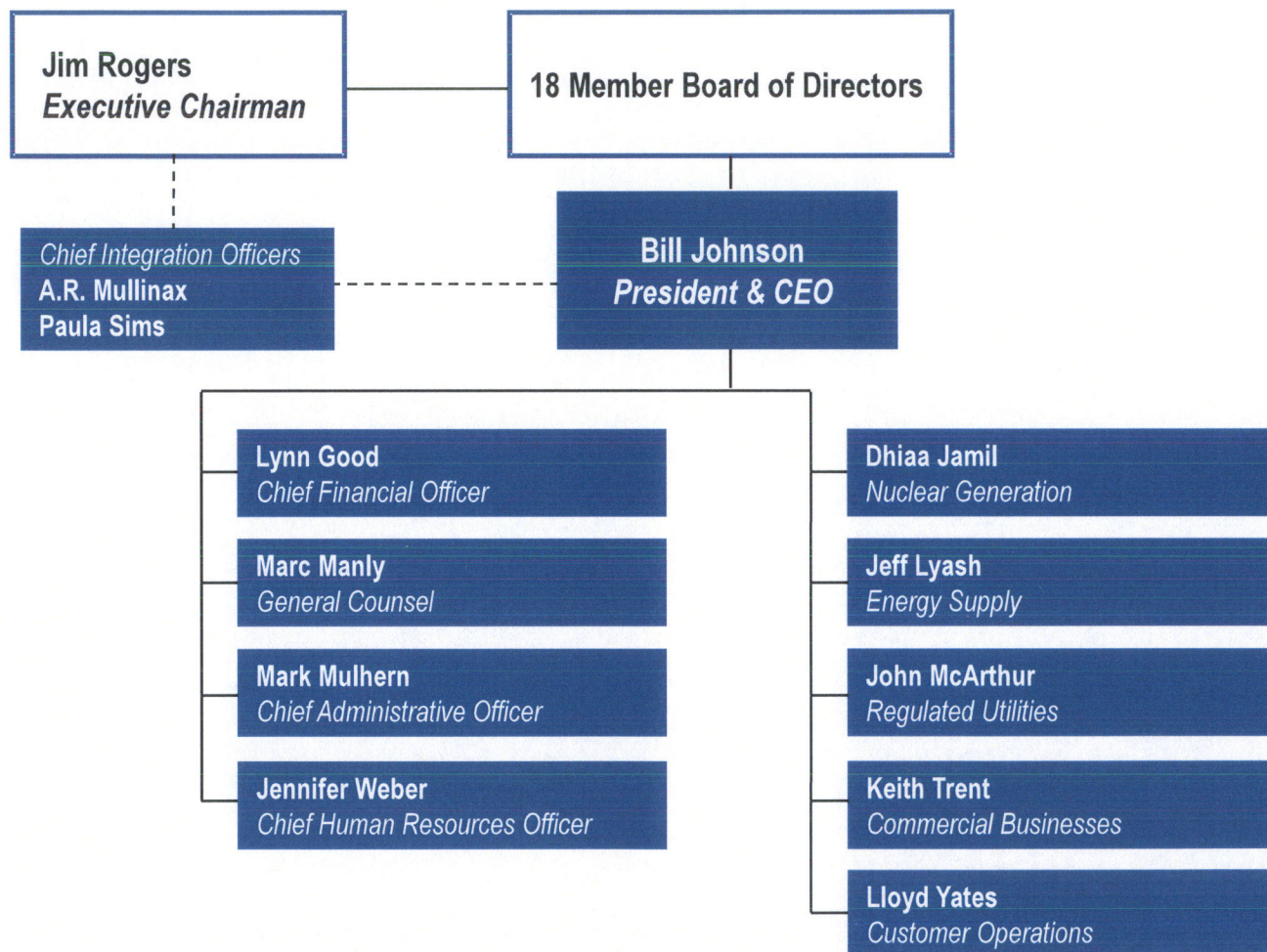


# Key Transaction Terms

Company Name	<ul style="list-style-type: none"><li>■ Duke Energy Corporation</li></ul>
Consideration	<ul style="list-style-type: none"><li>■ 100% stock</li><li>■ 2.6125 shares of Duke Energy per Progress Energy share</li></ul>
Headquarters	<ul style="list-style-type: none"><li>■ Corporate: Charlotte; significant presence in Raleigh</li><li>■ Utilities: No change</li></ul>
Pro Forma Ownership	<ul style="list-style-type: none"><li>■ Duke Energy shareholders: 63%</li><li>■ Progress Energy shareholders: 37%</li></ul>
Governance	<ul style="list-style-type: none"><li>■ Executive Chairman: Jim Rogers</li><li>■ President and CEO: Bill Johnson</li><li>■ Board composition<ul style="list-style-type: none"><li>■ 11 nominated by Duke Energy, including Jim Rogers</li><li>■ 7 nominated by Progress Energy, including Bill Johnson</li><li>■ Lead Director to be designated by Duke Energy</li></ul></li></ul>
Timing/Approvals	<ul style="list-style-type: none"><li>■ Following shareholder vote and regulatory approvals, targeting closing transaction by end of 2011</li></ul>



# Highly Experienced Leadership Team



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# Company Highlights

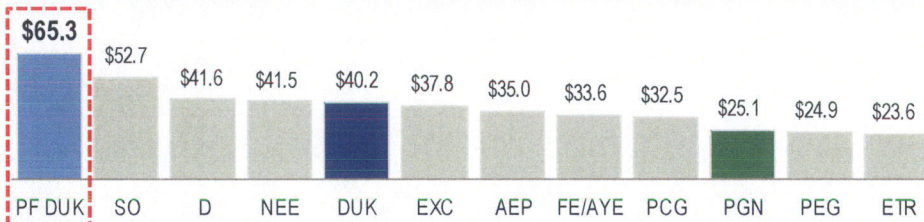


Creating the Leading U.S. Utility – January 26, 2011



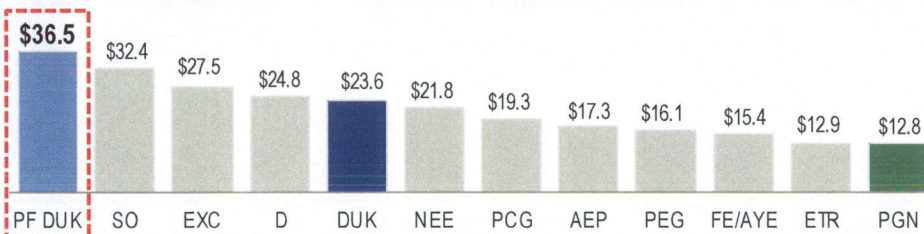
# The Leading U.S. Utility

## Enterprise Value (\$ B)



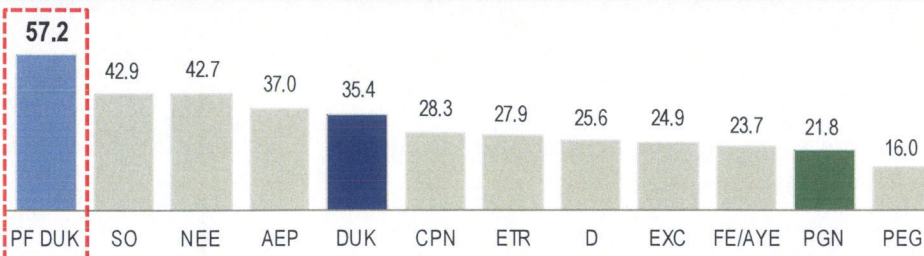
- #1 U.S. utility by enterprise value
- \$65.3 B enterprise value
- 24% larger than the #2 utility
- \$90.6 B in total assets<sup>1</sup>

## Market Capitalization (\$ B)



- #1 U.S. utility by market capitalization
- \$36.5 B equity value
- 13% larger than the #2 utility

## Capacity Owned (GW)



- #1 U.S. utility by generation capacity
- 57.2 GW total capacity
- 33% larger than the #2 generator

Source: Market data as of 12/31/2010, company filings; capacity owned as of 09/30/2010 for Duke Energy and Progress Energy; as of 12/31/2009 for other companies

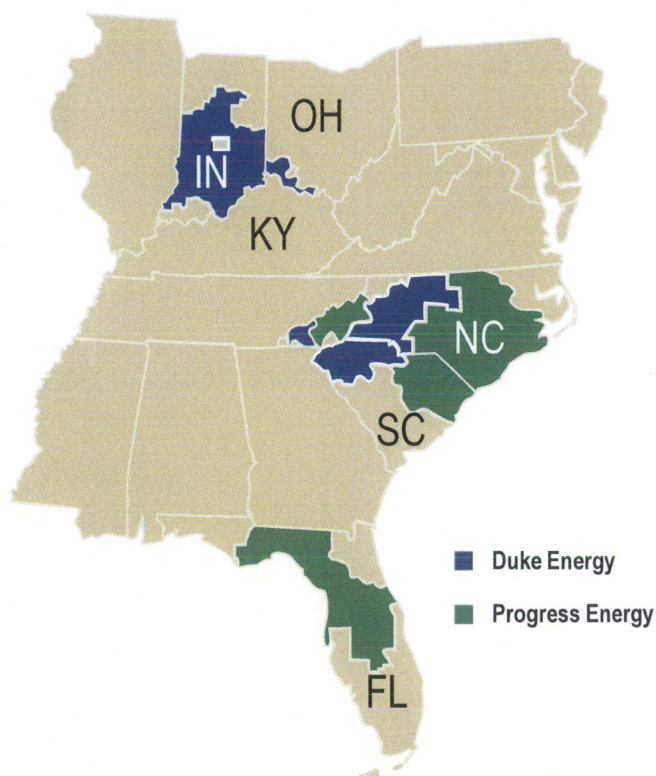
<sup>1</sup> Total assets are as of 9/30/2010 and are a summation of the two stand-alone companies and do not include any purchase accounting adjustments from this transaction.



# Attractive, Diversified Operations

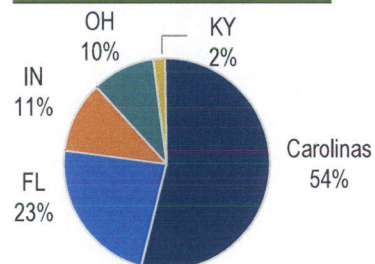
- Presence in six attractive growth service territories with constructive regulatory traditions
- More electric customers than any other U.S. utility, serving 7.1 M domestic regulated electric customers

## Diverse Service Territories

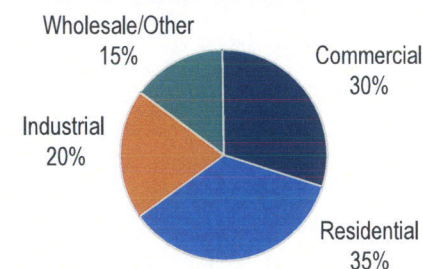


## Customer Diversity: 7.1 M regulated customers

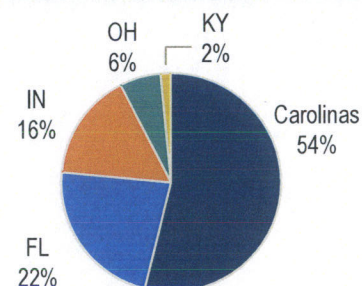
### By Geography



### By Type: 235 TWh



## Rate Base Diversity: \$40 B



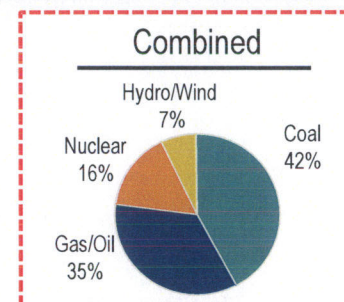
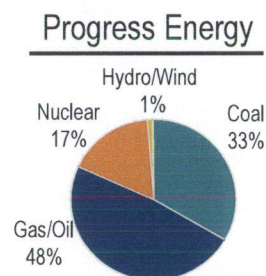
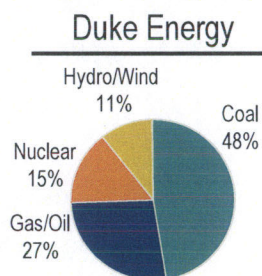
Note: Customer data as of 12/31/2009; rate base data estimated as of 12/31/2010 (see Note on slide 24); customer data only includes regulated customers



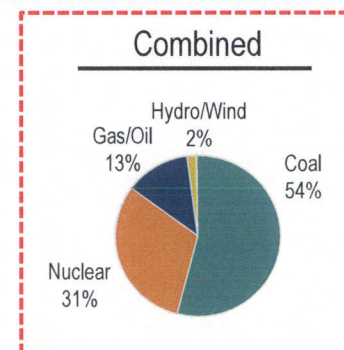
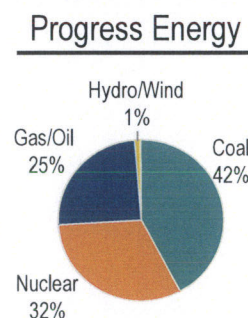
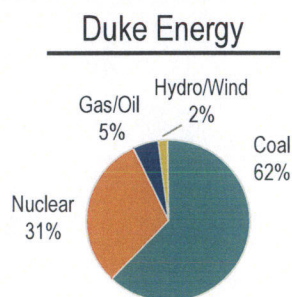
# U.S. Generation Diversity

- Highly diversified generation capacity and fuel profile
- Capacity and fuel diversity projected to increase, migrating the combined fleet to greater gas and less coal exposure

## By Owned Capacity: 57 GW<sup>1</sup>



## By Actual Generation: 231 TWh<sup>1</sup>



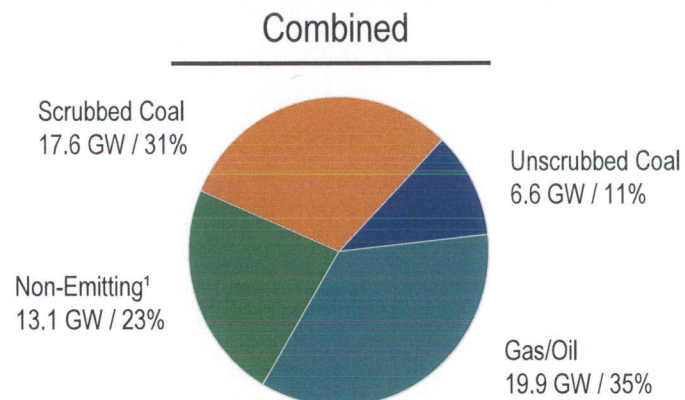
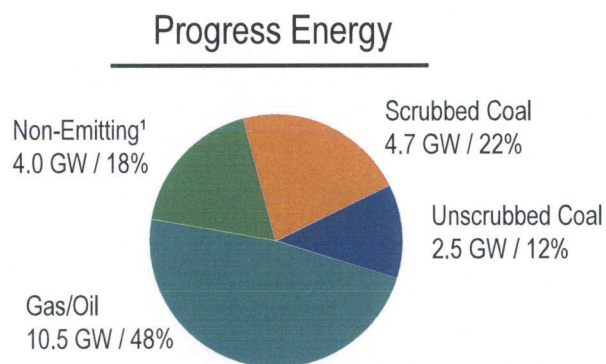
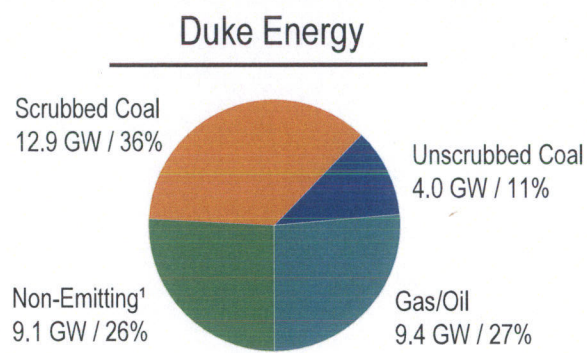
Source: SNL Energy, Ventyx, company filings

<sup>1</sup> Note: Capacity owned as of 09/30/2010 excludes approximately 4 GW of Duke Energy International assets. Actual generation includes twelve-months ended 12/31/2009 and excludes purchased power



# U.S. Generation Well Positioned for Pending Environmental Regulations

## Generation Capacity by Technology (GW / %)



## Unscrubbed Coal Capacity (GW)

### Announced Retirements

Duke Energy	1.9
Progress Energy	1.5
Subtotal	3.4

### Potential Additional Retirements/Investments

Duke Energy	2.2
Progress Energy	1.0
Subtotal	3.2

<b>Total Unscrubbed Coal</b>	<b>6.6</b>
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¹ Duke Energy: Nuclear (15%), Hydro (9%), Renewables (2%); Progress Energy: Nuclear (17%), Hydro (1%); Combined: Nuclear (16%), Hydro (6%), Renewables (1%)

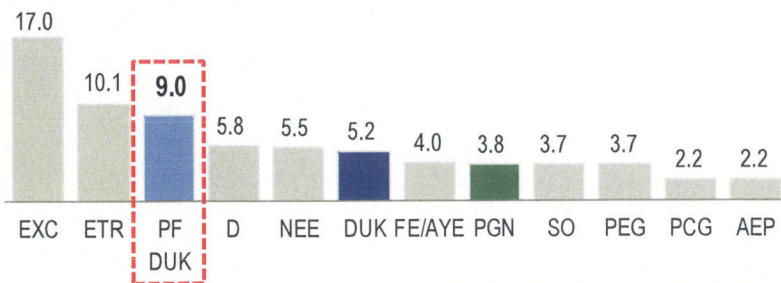
Note: Generation capacity as of 09/30/2010 excludes approximately 4 GW of Duke Energy International assets



# Nuclear Generation Overview

- Combination creates the largest U.S. regulated nuclear fleet
  - 7 stations and 12 units with ~9 GW of owned generation
- Commitment to top quartile operational performance for nuclear fleet
  - Combination of nuclear fleets to drive best practices and achieve operating efficiencies
- Size and scale better positions combined company for the continued pursuit of new nuclear development opportunities
  - COLs have been filed with the NRC for three potential sites
  - New nuclear will only be pursued with the appropriate regulatory recovery mechanisms in place

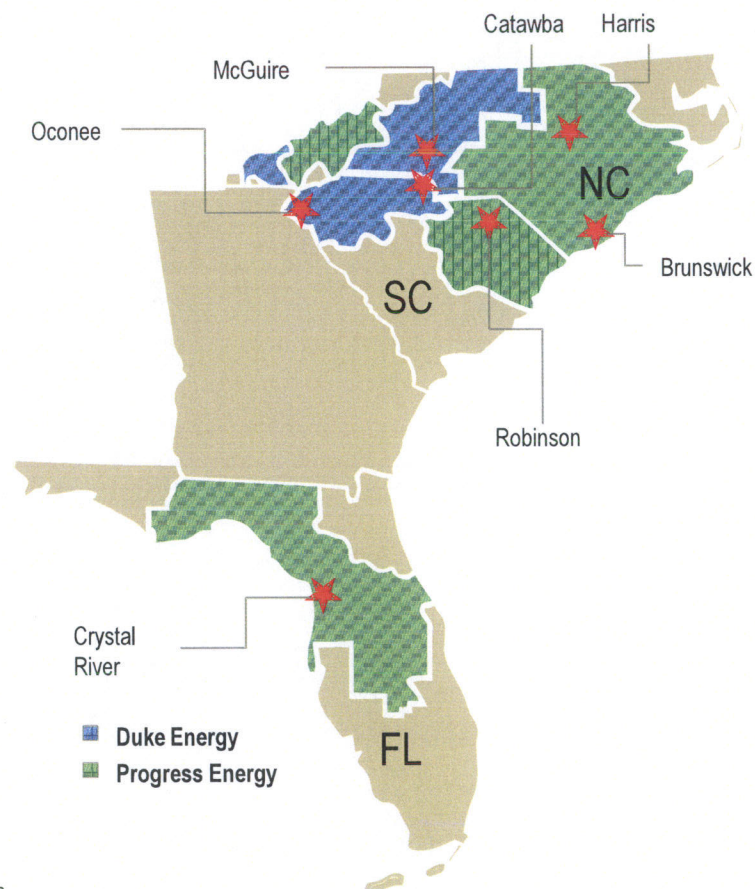
## Nuclear Generation Capacity Owned (GW)



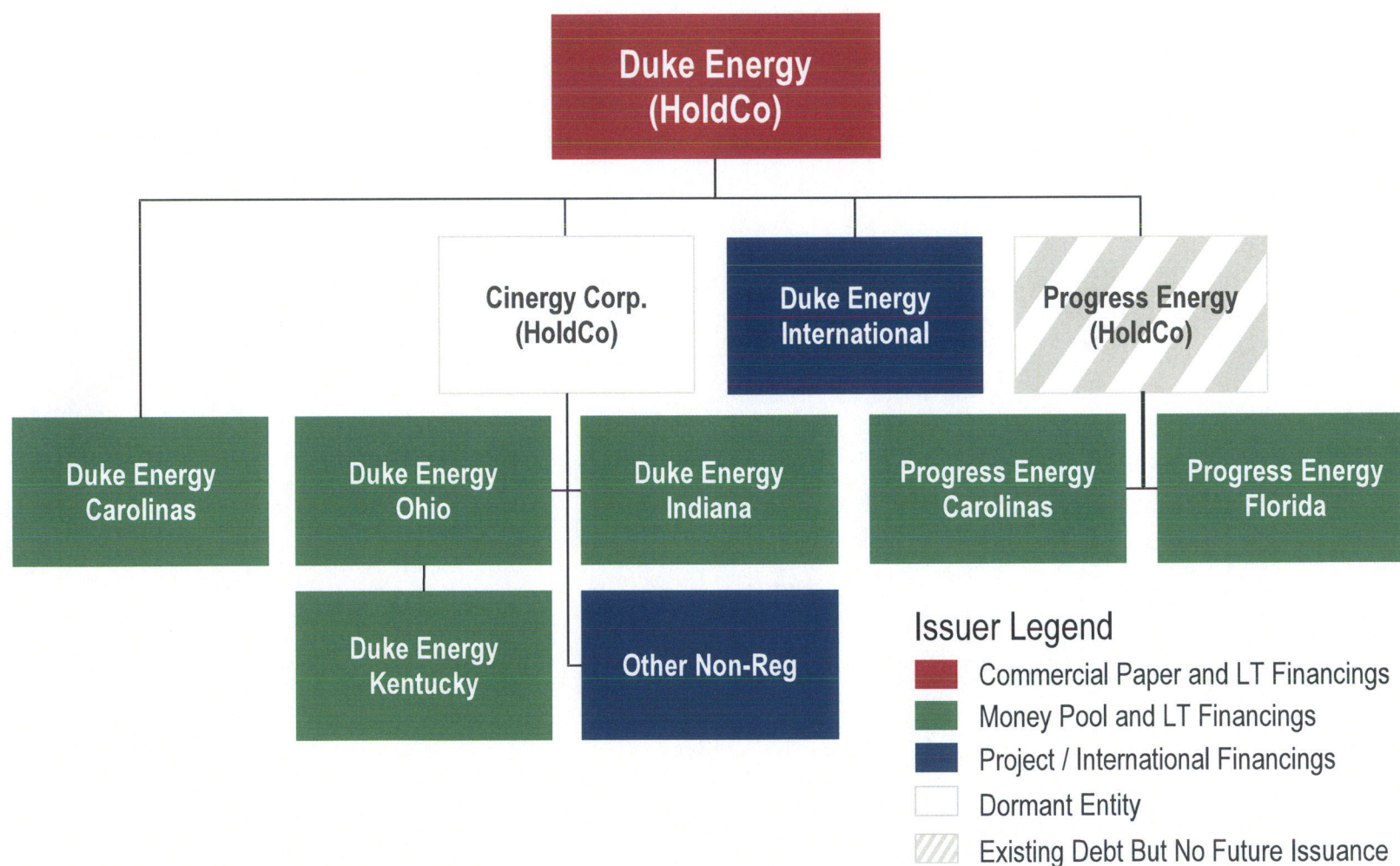
Source: SNL Energy, Ventyx, company filings

Note: Capacity owned as of 09/30/2010 for Duke Energy and Progress Energy; as of 12/31/2009 for other companies

## Combined Nuclear Generation Fleet



## Simplified Financing Structure by Legal Entity





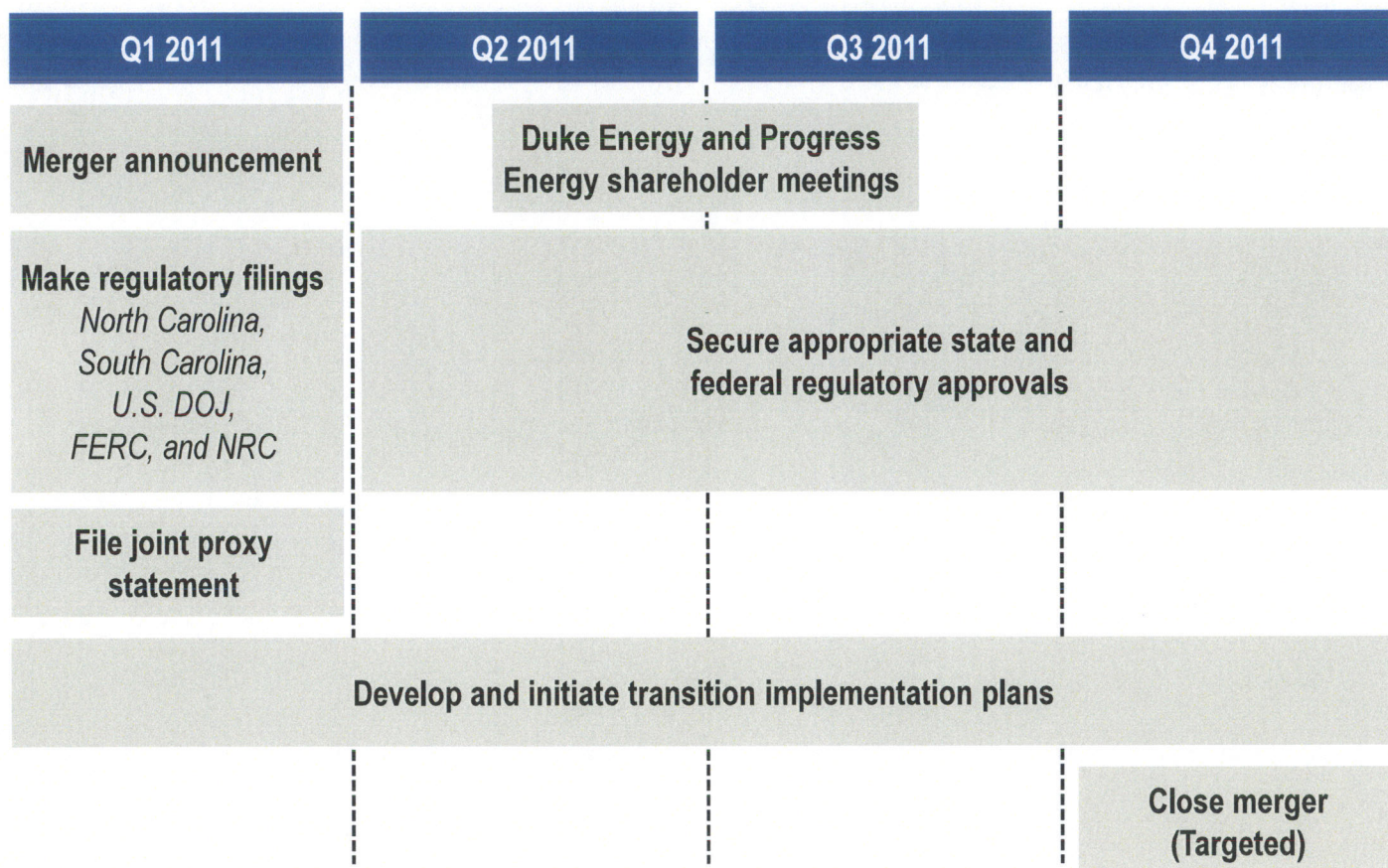


# Schedule

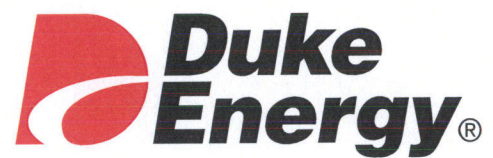


Creating the Leading U.S. Utility – January 26, 2011

## Indicative Timeline to Close and Regulatory Approvals



- We will work collaboratively with all of our state regulators



Creating the Leading U.S. Utility – January 26, 2011



State of Florida



## Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

### -M-E-M-O-R-A-N-D-U-M-

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**DATE:** January 18, 2011

**TO:** Timothy J. Devlin, Executive Director

**FROM:** Division of Economic Regulation (Franklin, Lester)

**RE:** Utility Hedging Presentation

**CRITICAL INFORMATION:** Please place on the January 26, 2011 Internal Affairs meeting agenda.

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Staff has been requested to give a presentation on the fuel price hedging practices of Florida electric utility companies at the January 26, 2011 Internal Affairs meeting. The attached presentation will give an overview of hedging activities and Commission policy regarding hedging.



# Utility Hedging

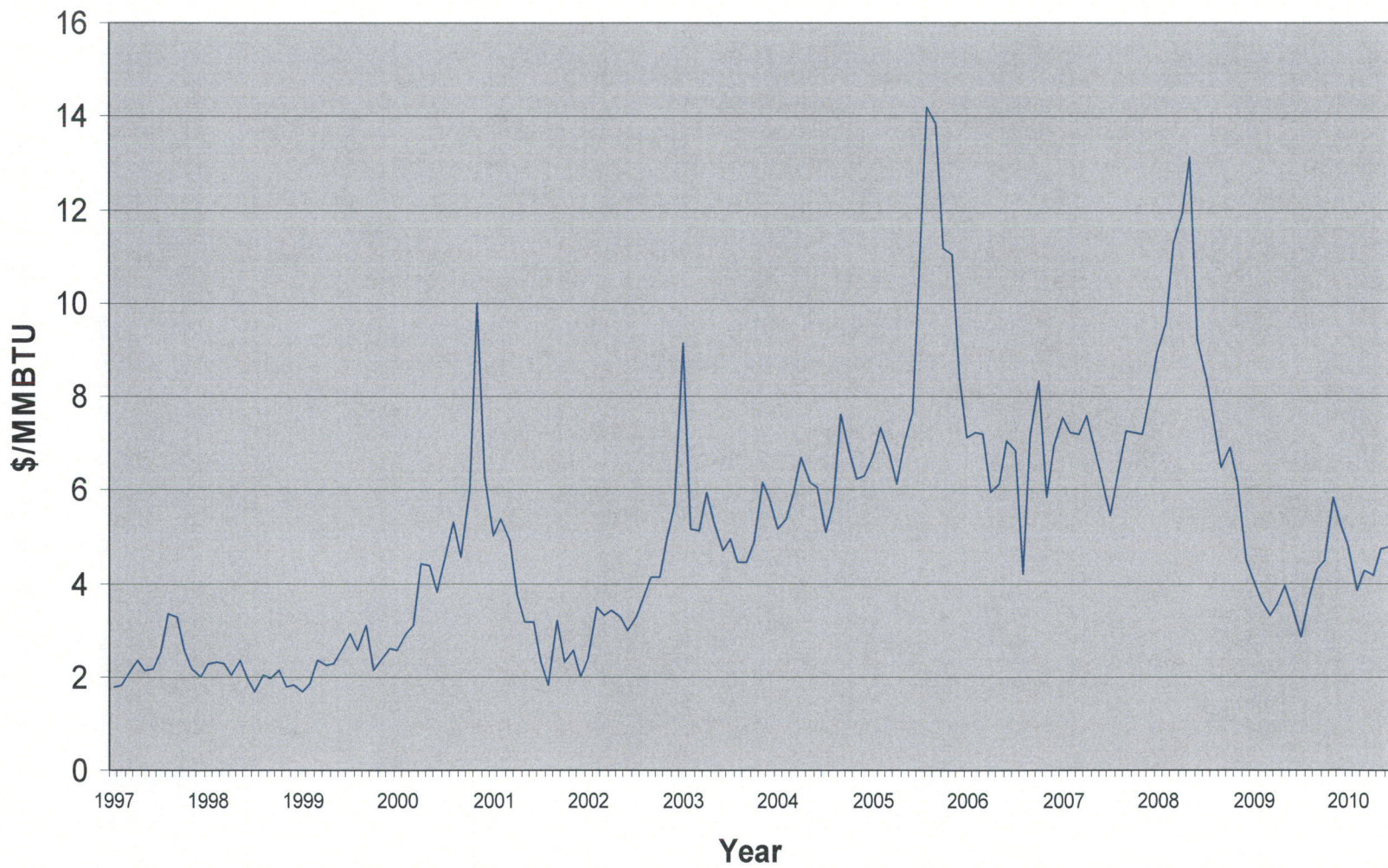
January 26, 2011



# Fuel Price Hedging

- Reasons for Hedging in Commodity Markets
- Definitions and Examples
- History of the Commission's Hedging Policy
- Current Guidelines
- Current Commission Policy and Results

## Natural Gas Prices



# Natural Gas Market

- Large number of buyers and sellers
- Standard Commodity
- Prices reflect current market information
- Prices are volatile
- Prices move on supply/demand conditions and some speculation influence



# Definitions

- Price Risk – uncertainty regarding future commodity prices
- Hedging - fixing the price of a commodity now for delivery at a specific time in the future
- Physical Hedging – locking in a fixed price for the commodity by a long-term contract with a supplier
- Financial Hedging – using futures, options, or swaps to fix the price now for a commodity to be delivered in the future

## Example: A Gas Purchase Transaction

- Company has a supply contract with a gas supplier
- Supplier delivers gas to a point on the pipeline
- The price is indexed to the spot price at the time of delivery

## Hedge Transaction Date: January 26, 2011

- March 2012 Delivery      100,000 MMBtus
- March 2012 Quoted NYMEX  
futures price as of Jan. 26, 2011      \$ 5.00
- Actual March 2012 Spot Price      \$ 6.00
- \$ 1.00
- Gain/Savings is \$100,000

## Hedge Transaction Date: January 26, 2011

- March 2012 Delivery      100,000 MMBtus
- March 2012 Quoted NYMEX  
futures price as of Jan. 26, 2011      \$ 5.00
- Actual March 2012 Spot Price      \$ 4.00
- \$ (1.00)
- Loss/Cost is \$100,000

## **History of Commission Hedging Policy**

- Issues raised in the 2001 Fuel hearing were “spun out” to Docket No. 011605-EI
- The main Hedging Order (PSC-02-1484-FOF-EI) came about as a Settlement Agreement from this docket.



# Order No. PSC-02-1484-FOF-EI

- Prudently-incurred savings/costs are passed through the Fuel Clause
- Established what should be in Risk Management Plans

# **Order No. PSC-08-0316-PAA-EI**

- First of two clarifications in 2008 to the Hedging Order
- Established a requirement that a current-year hedging review (Hedging Information Report) was to present August 1- July 31 results.

# Order No. PSC-08-0667-PAA-EI

- The Commission affirmed its long-term support for hedging
- “hedging does not involve speculation”
- The purpose of hedging is **“to reduce fuel factor volatility, not just fuel price volatility.”**
- With fuel hedging, the **“expectation is that gains and losses will cancel out over the long-run”** [and] “hedging is not expected to create long-run profits or losses.”

# Current Guidelines

- Report of “Hedging Activities”
- Risk Management Plans
- Guiding Principles



# Risk Management Plans

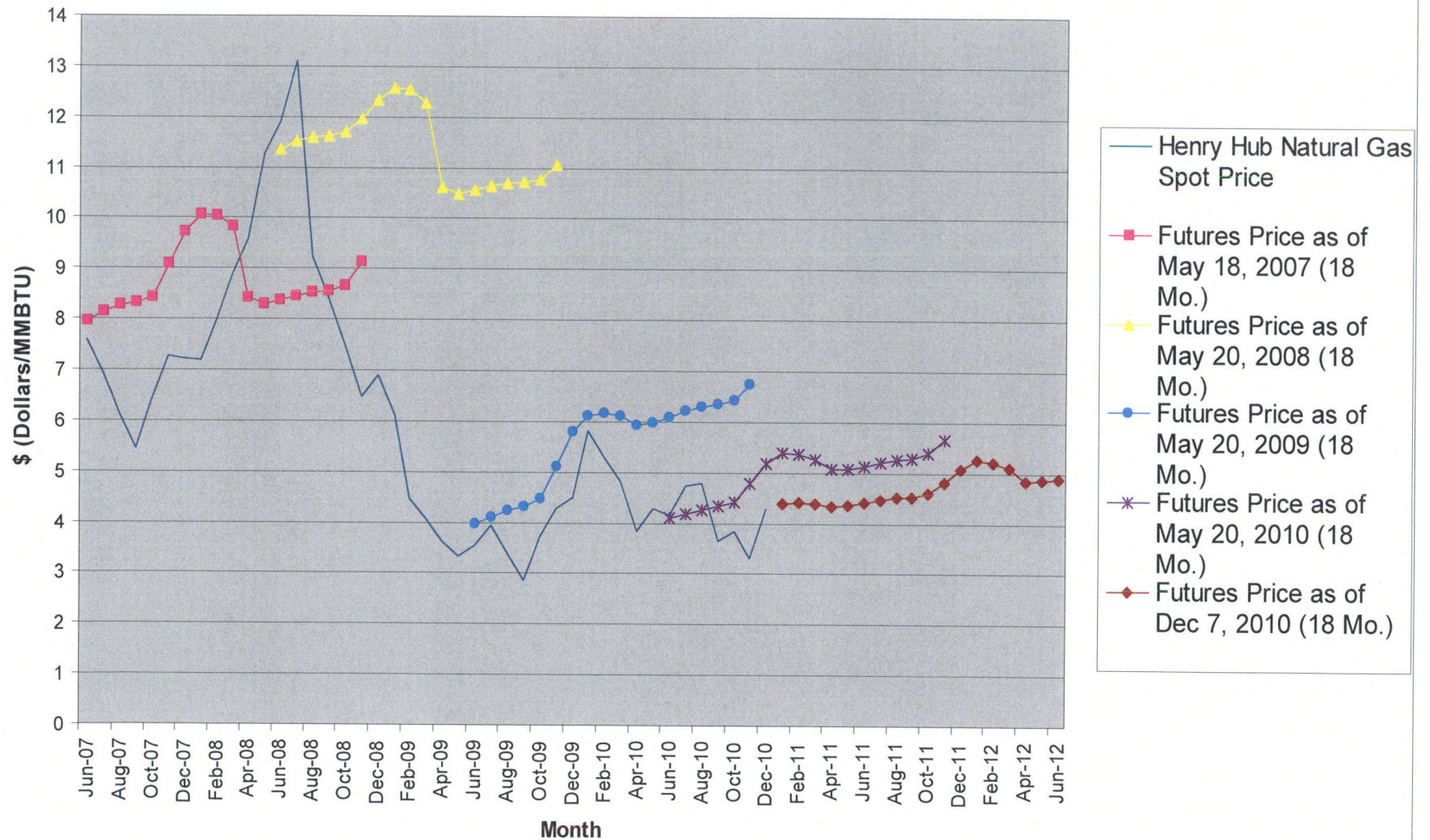
- Filed every August
- Must comply with all Risk Management Plan Guidelines
- Important Components
  - Range of Volumes to be Hedged
  - Fuel Procurement Strategy
  - Risk Management Policy
  - Oversight of Procurement Activities (Organizational Chart)

# Guiding Principles

- Purpose – To reduce the impact of Volatility
- A well-managed hedging program does not involve speculation “outguessing the market”
- Only a percent range of volumes of fuel can be hedged.
- Hedging will result in savings/costs if prices settle above/below the price the hedges were entered



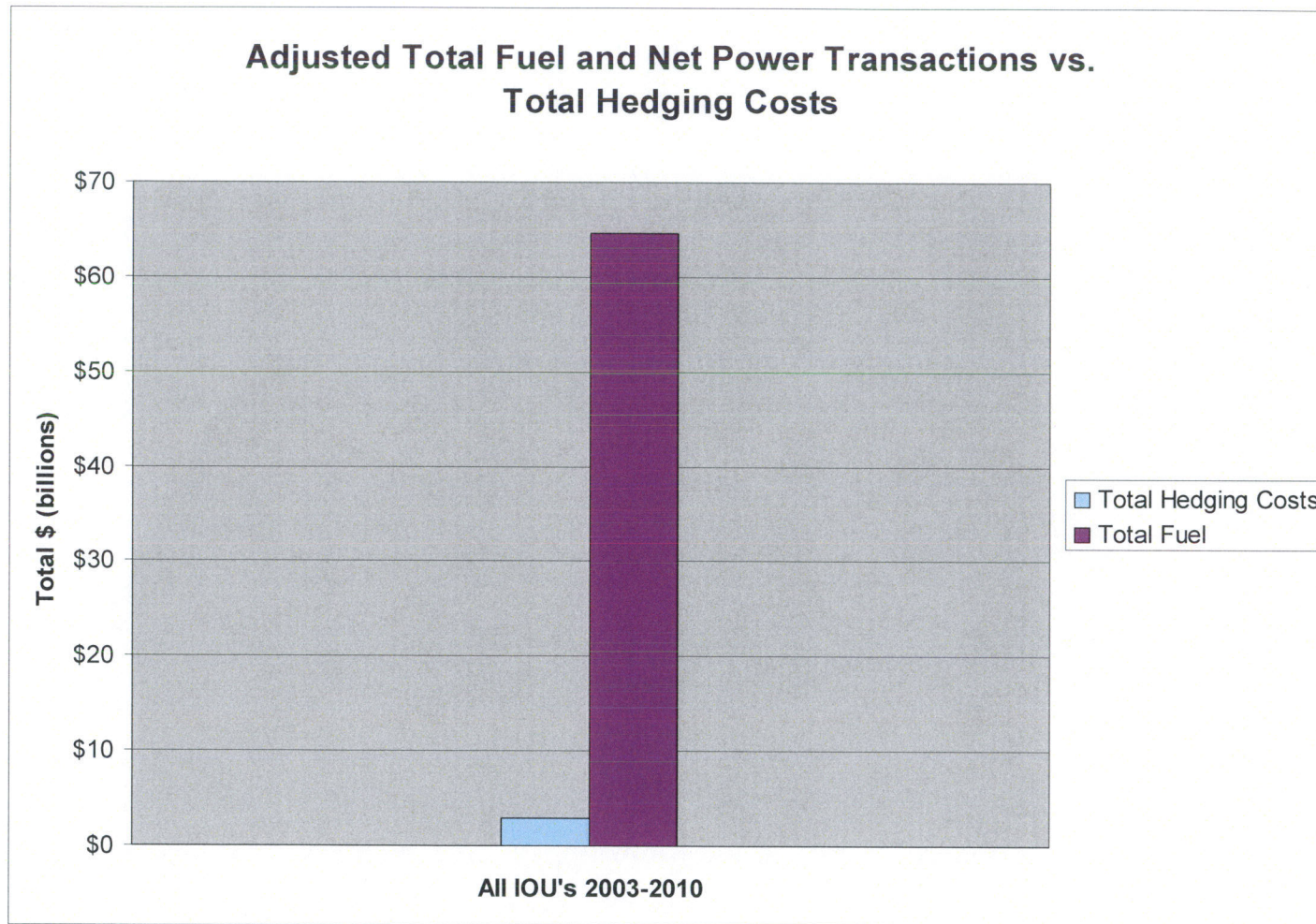
### Natural Gas Settlement Price vs. Futures Prices



# Current Commission Policy and Results

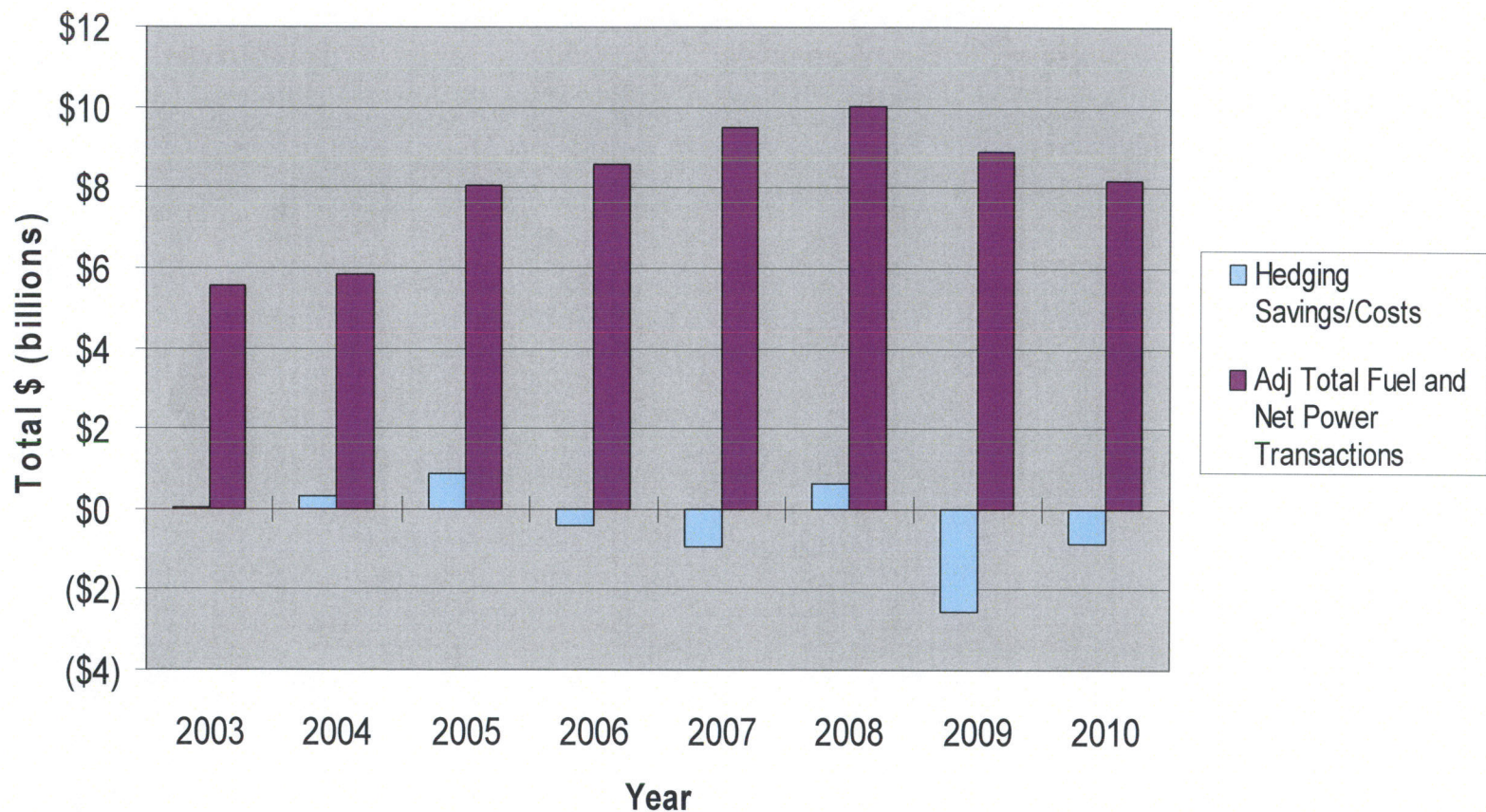
- The effect of Hedging Activities is passed through the Fuel Clause
- The Commission approves Risk Management Plans at the Annual Fuel Hearing for the future year
- Hedging Activities that follow the approved Risk Management Plan are prudent
- The Commission conducts an audit of all Risk Management Plans and Hedging Activities





2003 through 2010 for All Florida IOU's  
Total Fuel Expenditures = \$64.5 billion  
Total Hedging Cost = \$2.9 billion

## Yearly Adjusted Total Fuel and Net Power Transactions vs. Yearly Hedging Savings/Costs



# Any Questions?



## II. Outside Persons Who Wish to Address the Commission at Internal Affairs

***OUTSIDE PERSONS WHO WISH  
TO ADDRESS THE COMMISSION AT***

***INTERNAL AFFAIRS  
January 26, 2011***

<b><u>Speaker</u></b>	<b><u>Representing</u></b>	<b><u>Item #</u></b>
Alex Glenn	Progress Energy	2
Bill Holliman	Florida Industrial Power Users Group	3
John Butler	Florida Power & Light	3
Alex Glenn	Progress Energy	3

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# III. Supplemental Materials Provided During Internal Affairs

**The records reflect that there were no supplemental materials provided to the Commission during this Internal Affairs meeting.**