BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by Progress Energy Florida, Inc.

Docket No. 090079

Submitted for filing:
March 20, 2009

DIRECT TESTIMONY
OF
SANDRA S. WYCKOFF

On behalf of Progress Energy Florida, Inc.
I. INTRODUCTION AND SUMMARY.

Q. Please state your name and business address.

A. My name is Sandra S. Wyckoff. My business address is Corporate Planning Department, Progress Energy Service Company, LLC, P.O. Box 1551, PEB 19, Raleigh, North Carolina 27602

Q. By whom are you employed and in what capacity?

A. I am the Director of Service Company Finance for Progress Energy Service Company, LLC ("Service Company").

Q. What are your duties and responsibilities with respect to Progress Energy Florida?

A. As Director of Service Company Finance, I am responsible for planning, budgeting and cost management for the Progress Energy Service Company, LLC. Progress Energy provides A&G functions for all of its subsidiaries, including Progress Energy Florida, in a centralized manner primarily through the Service Company.
Q. Please describe your educational background and professional experience.


Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to support the reasonableness of the Administrative and General (“A&G”) portion of the Company’s Operational and Maintenance (“O&M”) expenses exclusive of Pension, Benefits, and Long-term Incentive Compensation, which will be addressed in the testimony of Mr. Masceo DesChamps.
Q. Do you have any exhibits to your testimony?
A. Yes. The following exhibits were either prepared under my supervision or under the
direction of the Service Company:

- Exhibit No. (SSW-1), which is a list of the Minimum Filing Requirements (MFRs)
schedules that I sponsor or co-sponsor;
- Exhibit No. (SSW-2), which is an organizational chart of the Service Company; and
- Exhibit No. (SSW-3), which is the Company’s Cost Allocation Manual.

All of these exhibits are true and accurate.

Q. Do you sponsor any schedules of the Company’s Minimum Filing Requirements
(“MFRs”)?
A. Yes, I sponsor or co-sponsor the MFR schedules identified in Exhibit No. ______
(SSW-1) and they are true and accurate, subject to being updated in the course of this
proceeding.

Q. Please summarize your testimony.
A. The A&G functions for Progress Energy Florida are performed primarily through the
Service Company. A&G Expenses consist primarily of functions for financial services,
human resources, corporate communications, legal, regulatory affairs, audit and
compliance, real estate and facility services, information technology, and
telecommunications as well as corporate benefit costs. Progress Energy Florida has
forecasted that its A&G O&M expenses for 2010, exclusive of Pension, Benefits, and
Long-term Incentive Compensation, are within the Florida Public Service Commission
("Commission") benchmark from the last base rate proceeding. Since that last base rate proceeding, we have been serving more customers each year, while actively controlling the cost for the customer. Based on these facts and others that are discussed more fully in my testimony, the Company’s forecasted 2010 A&G costs are reasonable and should be approved in this proceeding.

II. OVERVIEW OF THE SERVICE COMPANY.

Q. Who administers the A&G functions for Progress Energy Florida?
A. Progress Energy Service Company LLC provides A&G functions in a centralized manner for Progress Energy, Inc. (the parent company of Progress Energy Florida), and all of its subsidiary companies, including Progress Energy Florida. As such the Service Company charges must be limited to its “costs” of providing such services, and Service Company cost allocation is designed to ensure that all costs are allocated fairly and equitably and so that one company does not subsidize another.

Q. How is the Service Company organized?
A. See Exhibit No. ___ (SSW-2). This is an organizational chart for Progress Energy Service Company that identifies the Service Company’s functions.

Q. What A&G services and products does the Service Company provide PEF?
A. The Service Company provides processing, reporting, and management oversight for a variety of areas, including financial services, human resources, corporate communications, legal, regulatory affairs, audit and compliance, real estate and facility
services, information technology, and telecommunications. Exhibit No. ___ (SSW-2) provides a listing of all Service Company departments and Exhibit No. ___ (SSW-3), the Cost Allocation Manual, provides a detailed listing of all Service Company products and services.

Q. **Why are these services and products provided to PEF through the Service Company?**

A. The consolidation of various corporate A&G functions eliminates duplicative resources and reduces the cost of utility operations to the utility’s customers. The Service Company provides these services primarily to Progress Energy Carolina (“PEC”) and PEF. We refer to PEC and PEF as our “Client Companies.” The Service Company is obligated to provide products and services that PEF and PEC need, much like any company provides services to its clients. The Client Companies look to the Service Company to provide the A&G services listed above.

Q. **Do PEF’s customers benefit from the Service Company providing these services and products to PEF?**

A. Yes. The Service Company provides centralized management of financial services, human resources, corporate communications, legal, regulatory affairs, audit and compliance, real estate and facility services, information technology, and telecommunications. This integration allows the combined companies to reduce the number of redundant functions where staffing levels are relatively fixed and do not vary directly with an increase or decrease in the number of employees or customers.
The centralization of the Service Company benefits Progress Energy Florida’s customers by providing greater efficiency, and thus lower costs than would otherwise be the case if both Client Companies engaged in the same support activities separately.

Q. **How does the Service Company allocate the cost for services and products provided to PEF?**

A. There are two ways that a Client Company can be charged for services and products provided by the Service Company. In the first instance, a product or service is provided specifically to a Client Company to meet its specific needs. These costs are charged directly to the Client Company. In the other instance, a product or service is provided on an ongoing basis to both Client Companies and cannot be directly assigned to a specific Client Company. These costs must therefore be allocated between the Client Companies.

The costs of the Service Company are classified into various products and services for each functional area. Prior to allocating costs, the Service Company will assign or charge directly to a Client Company those costs associated with a product that specifically benefits a particular Client Company or that a particular Client Company caused the Service Company to incur. For example, if the Service Company performs an IT project for Progress Energy Florida or incurs costs to improve Progress Energy Florida’s vehicle fleet, the Service Company will assign the costs of these projects (or “products”) directly to Progress Energy Florida.

Any costs that are not directly assignable to a particular Client Company are allocated to the various affiliates that use the service or product based on specific pre-
defined metrics as outlined in the Cost Allocation Manual ("CAM"). These metrics are objective formulas for allocating costs on such basis as may be appropriate to the kind of cost, service, or product involved. From time to time, the Service Company may make changes to the metrics to better allocate costs.

The Service Company, during the annual budget and planning cycle, updates the data used for computing the metrics to ensure that the costs are properly allocated between the affiliates. For example, assignment of human resources costs using a Headcount Ratio would require an update for current headcount. The Service Company evaluates and updates its computations at least once every year.

The policies, procedures, methodologies, and metrics are described in detail in Exhibit No. ___ (SSW-3).

Q. What steps are taken to ensure that PEF pays only for the services and products it receives from the Service Company?

A. The Service Company maintains accounting systems that provide the ability to assign costs to the category of service to which they relate. Separate charge codes are defined and used for costs that are directly assignable to a Client Company. The systems enable the costs of services to be charged directly to the Client Company for which they were performed, or, when appropriate, accumulated in such a manner that they can be distributed or allocated to the Client Companies using the appropriate pre-defined, approved methodology.

The Service Company prepares and submits a bill to each Client Company for services rendered on a monthly basis. The bills itemize the cost of each service billed
to the Client Company. The management of each Client Company is responsible for reviewing the billing report to assess the accuracy and appropriateness of the charge. During the annual planning process, the Service Company and the Client Companies negotiate an agreeable financial target within which work is prioritized by way of collaboration with the Client Companies.

In addition to the monthly billing and review process, the Company’s Audit Services Department conducts periodic audits of the Service Company administration and accounting processes. The audits include examinations of the accounting system, source documents, allocation methods and billings to determine if services are authorized and properly accounted for.

Q. Are the services and products provided by the Service Company to PEF necessary for PEF to provide its customers with reliable, efficient electric service?

A. Yes. PEF is a corporation, and like every corporation, it requires certain services, like legal, IT, and financial services, to function and efficiently do what must be done to achieve the corporate purpose. Organizations such as the Financial Services organization ensure that all GAAP requirements and SEC filings are in accordance with current laws and guidelines. Likewise, the legal and regulatory organizations ensure compliance with regulatory requirements. Because PEF is a regulated utility, a regulatory organization like the one included in the Service Company is also necessary to make the required filings with PEF’s various regulatory entities.
The Service Company consolidates these various corporate functions and eliminates duplicative resources. This consolidation reduces PEF’s cost of providing reliable, efficient electric service to its customers.

III. ADMINISTRATIVE AND GENERAL EXPENSES.

Q. Please provide an overview of PEF’s 2010 A&G expenses.
A. The components of A&G expense provided by the Service Company, exclusive of Pension and Benefits, can be found in MFR C-6.

Q. How do these A&G expenses compare to the Commission benchmark?
A. A&G expenses, exclusive of Pension, Benefits, and Long-term Incentive Compensation, are approximately $12.6M lower than benchmark.

Q. What cost management efficiencies were achieved in A&G expenses?
A. A&G expenses excluding Pension, Benefits, and Long-term Incentive Compensation have increased at a factor of 11.8% compared to the benchmark multiplier of 14.7% reflecting efficiency gains compared to benchmark. Additionally, various software, such as consolidated financial systems and supply chain systems, placed in service as part of the integration work resulting from the merger have reached the end of their depreciable life. The assets continue to be used and provide benefit even though they have reached the end of their depreciable life thereby resulting in ongoing favorable Service Company depreciation expense.
Furthermore, efficiencies gained throughout the Service Company include renegotiating contracts with telecommunication service providers, in-sourcing fiber network monitoring services and radio/microwave tower maintenance services, standardization of the desktop hardware/software/operating systems enterprise-wide, and optimizing productivity at the Technology Service desk. All of these activities have contributed to the resulting 2010 budget being below the benchmark.

The Service Company, on an on-going basis, also reviews the impact of expenses such as property and liability insurance. Market forces, such as larger claims and catastrophic losses that occur in the insurance market, are a substantial driver of premiums. Premiums are partially a result of insurance limits and deductibles, but are also based on a risk profile. The Service Company regularly reviews the corporation’s risk profile and actively works to manage that profile to ensure premiums are kept at the lowest possible level. Other actions, such as increasing self-insurance levels and reducing maximum payout limits, where prudent to do so, have helped to mitigate upward pressure by market forces. The Service Company also participates in industry benchmarking to ensure that insurance premiums are reasonable and equitable across the market.

Finally, we have placed increased focus on cost reduction in the areas surrounding general administrative expenses. We are focused on continuous business excellence in a systematic effort to achieve sustainable efficiency and productivity gains every year. This involves such things as streamlining work processes, taking advantage of new technology, and eliminating waste and low-value activities.
Q. Are PEF’s total projected A&G Operation and Maintenance expenses for 2010 reasonable?

A. Yes. Our total A&G expenses, exclusive of Pension, Benefits, and Long-term Incentive Compensation, are lower than the Commission benchmark. We believe this demonstrates that we have operated efficiently and in a cost-effective manner. We are serving more customers now than in 2006, while actively controlling the cost for the customer.

Moreover, all costs are allocated on a fair and equitable manner to Progress Energy Florida. The Service Company engages in rigorous cost control, subjecting proposed expenditures to close scrutiny, internal challenge, and active management oversight. The Company has taken and continues to take appropriate steps to control and properly allocate A&G costs.

Q. Does this conclude your testimony?

A. Yes.
**MINIMUM FILING REQUIREMENT SCHEDULES**  
Sponsored, All or in Part, by Sandra S. Wyckoff

<table>
<thead>
<tr>
<th>Exhibit</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>C-9</td>
<td>Five Year Analysis – Change in Cost</td>
</tr>
<tr>
<td>C-12</td>
<td>Administrative Expenses</td>
</tr>
<tr>
<td>C-13</td>
<td>Miscellaneous General Expenses</td>
</tr>
<tr>
<td>C-14</td>
<td>Advertising Expenses</td>
</tr>
<tr>
<td>C-16</td>
<td>Outside Professional Services</td>
</tr>
<tr>
<td>C-33</td>
<td>Performance Indices</td>
</tr>
<tr>
<td>C-35</td>
<td>Payroll &amp; Fringe Benefit Increases Compared to CPI</td>
</tr>
<tr>
<td>C-36</td>
<td>Non-Fuel Operation and Maintenance Expense Compared to CPI</td>
</tr>
<tr>
<td>C-37</td>
<td>O&amp;M Benchmark Comparison by Function</td>
</tr>
<tr>
<td>C-38</td>
<td>O&amp;M Adjustments by Function</td>
</tr>
<tr>
<td>C-39</td>
<td>Benchmark Year Recoverable O&amp;M Expenses by Function</td>
</tr>
<tr>
<td>C-41</td>
<td>O&amp;M Benchmark Comparison by Function</td>
</tr>
</tbody>
</table>
Service Company Organization Chart

- Progress Energy Service Company
  - Financial Services
    - Accounting
    - Corporate Planning
  - Investor Relations
  - Tax
  - Treasury & Enterprise Risk Management
  - Corporate Relations & Administrative Services
    - Audit and Compliance
    - Corporate Communications
    - Corporate Services
    - External Relations
    - Human Resources
    - Information Technology & Telecommunications
    - Legal
    - Supply Chain
# Progress Energy, Inc.

## Cost Allocation Manual

### Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td>Introduction and Corporate Overview</td>
<td>1</td>
</tr>
<tr>
<td>II.</td>
<td>Legal Entity Organization Chart</td>
<td>2</td>
</tr>
<tr>
<td>III.</td>
<td>Policies &amp; Procedures Overview</td>
<td>8</td>
</tr>
<tr>
<td>IV.</td>
<td>Financial Systems &amp; Business Model Overview</td>
<td>13</td>
</tr>
<tr>
<td>V.</td>
<td>Cost Allocation Methodologies</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>A. Corporate Adders</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>B. CWIP Indirect Overhead Allocations</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>C. Service Company Allocation Metrics</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>D. Utility and Associate Companies Allocation Metrics</td>
<td>30</td>
</tr>
<tr>
<td>VI.</td>
<td>Listing of Services and Metrics Utilized by Service Provider</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>A. Service Company</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>B. Utility and Associate Companies Clearing Accounts</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>C. Utility and Associate Companies Services and Descriptions</td>
<td>55</td>
</tr>
<tr>
<td>VII.</td>
<td>Table of Services Provided to Each Legal Entity by Service</td>
<td>61</td>
</tr>
<tr>
<td></td>
<td>Provider</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A. Service Company</td>
<td>61</td>
</tr>
<tr>
<td></td>
<td>B. Utility and Associate Companies</td>
<td>64</td>
</tr>
<tr>
<td>VIII.</td>
<td>Service Company Project Listing</td>
<td>68</td>
</tr>
</tbody>
</table>
I. Introduction and Corporate Overview

During 2000, regulatory approval was received from the NCUC, SCPSC, FERC and the SEC to establish a holding company, now known as Progress Energy, Inc. (Progress Energy). Regulatory approval was received to acquire Florida Progress Corporation located in St. Petersburg, Florida. The formation of a subsidiary service company was also a part of the regulatory approval process. Progress Energy Service Company, LLC (PESC) is so organized and conducted as to meet the requirements of Section 13(b) of the Public Utility Holding Company Act of 1935 with respect to reasonable assurance of efficient and economical performance of services or construction or sale of goods for the benefit of associate companies, at cost fairly and equitably allocated among them. Prior to February 8, 2006, Progress Energy was a registered holding company under the Public Utility Holding Company Act of 1935, (PUHCA), as amended. Subsequent to February 8, 2006, Progress Energy is subject to additional regulation by the Federal Energy Regulatory Commission (FERC) as a result of regulation passed in 2005.

The purpose of this Cost Allocation Manual (CAM) is to provide guidelines to Company personnel involved with transactions among Progress Energy affiliates. It helps ensure these transactions are properly structured and accounted for in ways that comply with our regulatory commitments. Significant effort has been devoted to developing the processes and methodologies described herein. This makes clear Progress Energy’s commitment to avoid preferential treatment for any subsidiary. More specifically, the entire cost allocation program has been designed to guard against subsidization of one entity at the expense of others.

This CAM has been prepared by PESC for use when supplying various administrative, management, and corporate support services to the regulated and non-regulated associate companies within Progress Energy’s Holding Company system. This manual also provides descriptions of corporate allocations of common costs that are general in nature and corporate adders (e.g., benefits). It identifies the services provided by PESC and the allocation methods used for distributing costs to regulated and non-regulated associates for such services in accordance with the terms of Service Agreements. This manual also includes the description of services and the allocation methods used by Utility and Associate Companies within the Holding Company system for specific shared services in accordance with the terms of Service Agreements. PESC provides the necessary accounting and procedural infrastructure to support the administration of the Service Agreements in accordance with the rules and regulations of the various regulatory authorities.

This CAM is reviewed periodically and revised as required by changes in accounting methods, policies and procedures, services offered, and organizational structures. The cost allocation methodologies set forth herein have been designed to fairly assign costs to the appropriate users of the services provided.
II. Organization Charts
Progress Energy, Inc.
Corporate Legal Entity Structure

II. Organization Charts

Progress Energy Florida
Docket No. 090079-EI
Exhibit No. ____ (SSW-3)
Page 4 of 69
PIH, Inc.

- PIH Tax Credit Fund III, Inc.
- McDonald Megan Tax Credit Fund, L.P.
- National Corp. Tax Credit Fund VI (15.552954)

- PIH Tax Credit Fund IV, Inc.
- McDonald Corinne Tax Credit Fund, L.P.

- PIH Tax Credit Fund V, Inc.

[Diagram showing the hierarchy of entities related to PIH, Inc.]
Telecommunications Group

Progress Telecommunications Corporation

-51%*

PT Holding Company, LLC

PT Wireless, Inc
(~47%)

PT Attachement Solutions, LLC

PT Tower Solutions, LLC

*Remaining interests are owned by EP&K Communications, Inc., Carusat, Inc., and unrelated individuals
Progress Energy Carolinas (CP&L)
Other Investments

- Consolidated Entity for Financial Statement Purposes
CaroHome / CaroFund Investments

Progress Energy Florida Docket No. 090079-EL Exhibit No. (SSW-3)
Page 9 of 69

Note: CaroHome % listed first, then CaroFund %
*Also owned 0.01% by Historic Property Management LLC
**Consolidated Entity for Financial Statement Purposes
III. Policies and Procedures Overview

This section describes the approach every Progress Energy entity should take in their dealings with associate companies. Progress Energy Service Company (PESC) is the entity that provides the direction and oversight to ensure these policies and procedures are followed.

Objective:
Expenses that are core to a business or service are directly assigned to that business or service. Expenses of a corporate nature are cost effectively provided from a centralized organization. The goal is to ensure that the business or service generating the corporate costs pays such costs. To accomplish this, PESC complies with all applicable laws and regulations. Costs are directly billed from the service provider to the receiving entity to the greatest extent practical. Fair and equitable allocation methods are used to distribute costs that are not directly billed. Processes and procedures are in place to educate Progress Energy employees on how to accomplish this objective (e.g., policies and procedures posted on Progress Energy’s Intranet site, systems training, information sharing meetings with budget coordinators and cost analysts, etc.).

Guiding Principles:
- Compliance with applicable rules and regulations of all regulatory agencies.
- Costs should be allocated to those who receive the benefits or cause the costs to be incurred.
- Costs should be directly billed when practical.
- Allocations should be fair, consistent, equitable and logical.
- The administrative cost to support the allocation methodology should not exceed the benefit received.

Company Reference Definitions:
- **Service Company** refers to Progress Energy Service Company (PESC) as the company providing services.
- **Utility Company** refers to Carolina Power and Light Company d.b.a. Progress Energy Carolinas, Inc. (hereinafter “Progress Energy Carolinas”), and/or Florida Power Corporation d.b.a. Progress Energy Florida, Inc. (hereinafter “Progress Energy Florida”) as the company providing services.
- **Associate Company** refers to any company within the Progress Energy Holding Company system other than the Service Company or Utility Company as the company providing services.
- **Provider Company** refers to any company within the Progress Energy Holding Company system as the company providing services.
- **Client Company** refers to any company within the Progress Energy Holding Company system as the company receiving services.

Direct Costs:
Direct costs can be specifically identified with providing a particular service or product to a Client Company. Employee labor directly billed to Client Companies includes the cost of payroll tax, benefits, pensions, and exceptional hours overhead costs. Exceptional hours costs include hours spent on non-work related activities such as: vacation, holiday, sick, other hours
excused, and occupational accident hours. All of the above "labor adders" on direct labor costs are classified as direct costs. Direct costs are charged whenever practical. For example, labor charges for a Service Company employee to perform legal services for a Client Company are classified as a direct cost.

**Indirect Costs:**
Indirect costs cannot be specifically identified with providing a particular service or product to a Client Company. Employee labor allocated to Client Companies includes the cost of payroll tax, benefits, pensions, and exceptional hours overhead costs with the following exception. Progress Energy Florida labor does not include a pension adder because that Utility Company's pension fund is in a credit position. Progress Energy Florida's pension credit is recorded directly in account 926, Benefits Expense.

All of the above "labor adders" on indirect labor costs are classified as indirect costs. Indirect costs are allocated using a fair and reasonable percentage basis. For example, labor charges for a Service Company employee to perform payroll services for Client Companies are allocated based on headcount and classified as an indirect cost.

**Service Agreements:**
The Provider Company and each Client Company enter into a Service Agreement that sets forth, in general terms, the services to be performed by each organization within the Provider Company directly for or on behalf of each Client Company. The Service Agreements are reviewed periodically and updated as necessary. Authorized representatives of the Provider Company and the management of each Client Company approve the Service Agreements.

Service Agreements will typically contain the following information:
- Article I – Services (type and scope)
- Article II – Compensation (cost and cost assignment methodologies)
- Article III – Term
- Article IV – Miscellaneous (accounts and records)

A listing of services offered with a description of billing allocations and methods is included in the appendix of each Service Agreement.

**Accounting Systems:**
PESC maintains accounting systems that provide the ability to assign costs to the category of service to which they relate. The systems enable the costs of services to be charged directly to the Client Company for which they were performed or, when appropriate, accumulated in such a manner that they can be distributed or allocated to two or more Client Companies using an approved methodology. Supporting Client Company billing information is also generated.

The systems are based on the use of codes to assign charges to the applicable activity, product, project, or functional basis ("Account Codes"). The account numbers conform to the Uniform System of Accounts prescribed for Public Utilities by the Federal Energy Regulatory Commission modified to include Service Company revenue accounts. The Account Codes facilitate the tracking of the cost of each service by its component costs, such as labor, materials,
and outside services. The coding provides the ability to break the costs of services down by amounts directly billed to specific Client Companies (direct costs) and amounts allocated (indirect costs).

The account code segments are as follows:

- **Company** identifies a legal entity and represents the level for which a trial balance may be produced.
- **Line of Business** is a specific sub-division of the company’s business such as Energy Supply and Energy Delivery.
- **Charge To** is an organization responsible for ensuring work is performed and paying for costs incurred.
- **Charge By** is an organization responsible for expending resources in the performance of work.
- **Account** identifies a subdivision of accounts established by FERC.
- **Project** is a management-defined grouping of capital, O&M, and/or other costed work. A project is composed of one or more activities.
- **Resource Type** is the type of cost or resource used to perform an activity. Examples include labor, materials, transportation costs, etc.
- **Activity** is a unit of work performed within the organization that is meaningful and measurable.
- **Location** is a physical location serving as a cost center (e.g., a plant or generating unit).
- **Product** captures the revenue and expenses associated with producing goods or delivering services.
- **Joint Owner Accounting** code identifies whether a charge is an allocation to a joint owner based upon their ownership interest in generating facilities operated by Progress Energy Carolinas or Progress Energy Florida, a direct charge to the joint owner, or a direct charge to Progress Energy Carolinas or Progress Energy Florida.

Labor and labor-related costs are the most significant costs related to shared services. Accordingly, Progress Energy maintains time-entry subsystems that enable employees performing shared services to accurately assign hours worked to the appropriate Account Codes. Employees performing shared services prepare standard timesheets or similar records that indicate the purpose of each hour worked by entering this information directly into a time-entry subsystem no later than the last pay period to which it relates. The employees’ supervisor approves the time records. Charges for labor are made at each employee’s effective hourly rate and include the cost of pensions, employee benefits, and payroll taxes, except as noted above in Indirect Costs.

All accounting subsystems, including accounts payable processing, were designed to support the use of the necessary Account Codes. In all cases, PESC retains the applicable underlying source documents that indicate the nature and purpose of the costs incurred.
To the extent practical, Progress Energy employees assign costs directly to the Account Codes associated with the services rendered. The full cost of providing services also includes certain indirect costs, e.g., depreciation, interest, and taxes, which cannot be associated with specific services.

PESC and Other Provider Company (Non Service Company) costs are directly billed, distributed or allocated to Client Companies in the manner prescribed below.

1. Costs accumulated in Account Codes for services specifically performed for a single Client Company are directly billed to such Client Company.

2. Costs accumulated in Account Codes for services specifically performed for two or more Client Companies are distributed to such Client Companies using methods determined on a case-by-case basis consistent with the nature of the work performed and based on one of the approved allocation methods.

3. Costs accumulated in Account Codes for services of a general nature which are applicable to all Client Companies or to a class or classes of Client Companies are allocated to such Client Companies by application of one or more approved allocation methods.

Billing:
PESC or the Provider Company prepares and submits a bill to each Client Company for services rendered by each Provider Company. The bills itemize the cost of each service billed to the Client Company. Bills are rendered on a monthly basis. Within 30 days of the invoice date each Client Company pays each Provider Company for all undisputed charges. Interest is charged on any unpaid charges outstanding for 90 days or more.

The management of each Client Company is responsible for reviewing the billing report from the Provider Company to determine the accuracy and appropriateness of the charges.

The accounting systems contain the detailed transactions supporting the services billed. Using those systems, the Provider Company assists the Client Companies, as necessary, with the review and validation of charges. Any adjustments required are made in the subsequent month.

Accounting Department Responsibilities:
The Accounting Department within PESC is responsible for administering, monitoring and maintaining the processes by which Provider Company costs are accumulated and billed to Client Companies. In connection with this responsibility, the Accounting Department:

1. Controls the establishment and use of Progress Energy Account Codes

2. Assists Client Companies with the review and validation of charges
The Accounting Department periodically reviews allocations used by Progress Energy affiliates and updates as necessary while maintaining documentation supporting the calculations. The Accounting Department ensures that the allocation methods are appropriate for the type of cost incurred, have been approved or submitted for approval as necessary and are consistent with applicable orders of state utility commissions.

**Dispute Resolution:**
The Provider Company has 30 days to resolve the dispute after receiving notification by the Client Company. The Provider Company must provide the Client Company with evidence that the disputed charge is legitimate or issue a credit memo, using the “Intercompany Credit Memo Form - IC Invoice Dispute & Resolution Forms”.

Client Companies and Provider Companies are strongly encouraged to work towards a mutually agreeable solution. If, at the end of the 30-day dispute resolution period, the Provider Company and the Client Company cannot agree, the Provider Company will issue the Client Company a credit. Charges proven to be accurate after a credit memo has been issued may be re-billed by the service provider.

**Internal Review:**
The Audit Services Department conducts periodic audits of PESC’s administration and accounting processes. The audits include examinations of Service Agreements, accounting systems, source documents, allocation methods and billings to determine if services are authorized and properly accounted for. In addition, Progress Energy’s policies, operating procedures, and controls are evaluated periodically, as necessary.

**Evaluation and Measurement:**
In order to encourage the efficient and cost competitive provision of services, PESC conducts periodic benchmarking and customer review services. The customer review process allows collaboration across the enterprise to determine key areas of focus. This review is part of the annual budget development process.
IV. Financial Systems & Business Model Overview

The primary information systems for accumulating costs are Oracle General Ledger and Oracle Project Accounting. Subsystems include Payroll (time and expense reporting for labor), Oracle Accounts Payable (vendor invoices), Passport Supply Chain (material purchases), the Vehicle Management System (VMS), and the Information Technology Department’s Device Billing system (REMAC) and a Circuit Database Interface.

Business Model Components

- Cost Accumulation Method
  The Integrated Oracle Financial Systems, Project Accounting module is used to accumulate costs related to a work request (Project). This model provides proof of cost accumulation for reimbursable work performed for the benefit of the Client Company. Provider Company costs are collected and segregated by unique Product Codes, as part of the General Ledger Account Key. The Product Code becomes the key cost accumulator mechanism. Product Codes define the actual services provided. Allocation metrics are defined for most Product Codes.

- Cost Distribution Methods
  The model of cost distribution is commonly referred to as ‘Work Order Billing’. Two cost distribution methods are briefly described as follows:

    1) Direct Project Billed (DPB) costs are directly transferred from a Provider Company owned project to a Client Company project. The DPB cost distribution method requires two projects to be defined, a sending project/task and a receiving project/task. A Client Company owns the receiving project/task. An example of this would be Information Technology & Telecommunications (IT&T) “Application Maintenance” - Provide processes and functions that maintain and repair business software applications to Progress Energy Carolinas. IT&T charges a Service Company project that is linked to a Progress Energy Carolinas project for the application that IT&T manages.

    2) Indirect Allocations costs are transferred from a Provider Company owned product code to multiple receiving Client Companies because the total cost cannot be identified with a specific single receiving organization. An example of this would be “Payroll” – Provide payroll processing services. Payroll charges a Service Company project that is allocated to all participating companies based on headcount of each company.

Business Model Applications

The cost distribution methods support two business processes: Shared Services of the Service Company (as described above) and Shared Services of the Utility Company or Associate Company. The differences are summarized as follows:
Shared Services of the Service Company:
- Business process focuses on transfer/reimbursement of Service Company costs to Client Companies.
- All Service Company costs must be 100% distributed.

Shared Services of the Utility Company or Associate Company:
- Business process focuses on the transfer/reimbursement of costs of shared services between Utility or Associate Companies and Client Companies where the provider of the services is not the Service Company.
- Only the costs associated with the shared service are required to be distributed by the Utility Company at the higher of fully distributed cost or market value.
Work Order Billing Process (High Level)

- Labor, Materials
  - Project Accounting Module
    - Charges sent to General Ledger Module
    - Indirect Allocations - Distribute
      - Inter-Company Accounting Process
        - Generate Customer Invoices (from GL and Project Accounting data)

- Work Order Billing for Direct Project Bill Distributions
V. Cost Allocation Methodologies

A. Corporate Adders

Each Utility or Service Company has its own pool of dollars for each of the following corporate adders for cost accumulation and distribution within each company. Therefore, the adder rate may vary by Company.

**Exceptional Hours:**
Exceptional hours are employee labor hours that are not chargeable to productive projects. Examples of these include vacation, sick, excused time, jury duty, etc. These hours are not directly charged to valid projects and represent additional costs of labor. The exceptional hours adder rate is an estimated amount based on budget and a history of unproductive time and is recorded as a percentage adder to base productive labor. The percentage adder is a ratio, the numerator of which is the estimated non-productive hours for each Utility or Service Company and the denominator of which is the estimated productive hours of each Utility of Service Company. Each Utility or Service Company has its own exceptional hours pool to be distributed to that Company’s total labor dollars. The exceptional hours adder rate is set at the beginning of each budget year and is reviewed periodically and adjusted as necessary. With the exception of Progress Energy Florida (PEF), one adder rate is applied per Company and may vary by Company. PEF has two rates.

As actual exceptional hours are incurred, the cost is debited to a single exceptional hours project for each company, increasing the balance in the 18400EX clearing account. The exceptional hours adder is recorded as either a labor expense or capital to each company and is charged to the same account/project as the original base labor charge using the established adder rate. The offset is against the general exceptional hours clearing account (18400EX) recorded for each company, thus decreasing the balance in the 18400EX account.

At year end, any residual balance that exists in the 18400EX clearing account is distributed back within each respective company to account 920.

**Benefits:**
Company benefits costs are incurred on active and retired employees for health care, life insurance, long term disability, medical and salary continuance, and stock purchases. These costs are considered indirect costs that cannot be charged directly to others. The employee benefits adder rate is an estimated amount based on budget and is recorded as labor dollars are incurred as a percentage adder. The percentage adder is a ratio, the numerator of which is the estimated employee benefit expense for each Utility and Service Company and the denominator of which is the estimated productive labor dollars of each Utility and Service Company. Each Utility and Service Company has its own benefits adder pool to be distributed to that Company’s total labor dollars. The employee benefits adder percentage is set at the beginning of each budget year and is reviewed periodically and adjusted as necessary. One adder rate is applied per Company and may vary by Company.
The benefits adder is recorded as a benefits expense to each company and is debited based on the nature of the project to which the original labor is charged. For regulated O&M projects, the benefits expense is recorded to account 926 (Employee Pension and Benefits). For non-regulated O&M projects, the benefits expense is recorded to the same non-regulated O&M account as labor. For capital projects, the benefits expense is recorded to account 107. For stores projects, the benefits expense is recorded to account 163. For clearing account projects, the benefits expense is recorded to the appropriate 184 account. The offset is a general benefits clearing account (18400WA).

The actual expenses of each benefit program are captured in the following accounts:

18400YH Employee Health Care
18400YK Employee Life
18400YJ Retiree Health Care
18400YL Wellness
18400YN Stock Purchases
18400YU Health/Life Continuation
18400YV Salary Continuation

Actual employee health and life costs are recorded to the 18400YH and 18400YK clearing accounts for each company based on headcount.

The general benefits clearing account (18400WA) discussed above as the offset account for the adder transactions is cleared at year-end against the various benefit program clearing accounts where actual expenses are recorded. Any residuals remaining in the clearing accounts are cleared to account 926 for each company at the end of the year.

Actuarial studies, combined with the budgeted amounts, are used to determine the dollar amounts redistributed for each company from the clearing accounts to the appropriate reserve account for retiree health/life, salary continuation, health/life continuation, and stock purchases. As actual costs are incurred, they are applied against the reserve accounts based on headcount.

**Pensions:**
Company pension costs are incurred on active employees. These costs are considered indirect costs that cannot be charged directly to others. The pension adder rate is an estimated amount based on budget and is recorded as labor dollars are incurred as a percentage adder. The percentage adder is a ratio, the numerator of which is the estimated employee pension expense for Progress Energy Carolinas and Service Company and the denominator of which is the estimated productive labor dollars of Progress Energy Carolinas and Service Company. Progress Energy Carolinas and Service Company each have its own pension adder pool that is distributed to that Company's total labor dollars. The employee pension adder percentage is set at the beginning of each budget year and is reviewed periodically and adjusted as necessary. One adder rate is applied per Company and may vary by Company.

The pension adder is recorded as a pension expense to each company and is debited based on the
nature of the project to which the original labor is charged. For regulated O&M projects, the pension expense is recorded to account 926. For non-regulated O&M projects, the pension expense is recorded to the same non-regulated O&M account as labor. For capital projects, the pension expense is recorded to account 107. For stores projects, the pension expense is recorded to account 163. For clearing account projects, the pension expense is recorded to the appropriate 184 account. The actual expense for the pension program is captured in account 18400YM. The burden offset is a pension cost clearing account (18400PN).

The pension cost clearing account (18400PN) discussed above as the offset account for the adder transactions is cleared at year-end against the pension program clearing account where actual expenses are recorded (18400YM). Any residual remaining in the clearing account is cleared to account 926 for each company at the end of the year.

Actuarial studies, combined with the budgeted amounts, are used to determine the dollar amounts redistributed for each company from the clearing accounts to the appropriate reserve account for pensions. As actual costs are incurred, they are applied against the reserve account based on headcount.

As noted in Section III above, Progress Energy Florida’s pension is currently in a credit position. Progress Energy Florida will not record pension expense through an adder while its pension fund remains in a credit position. Progress Energy Florida’s pension credit is recorded directly to account 926, Benefits Expense.

Payroll Taxes:
Company payroll taxes are incurred for FICA and Unemployment taxes. Payroll taxes are the liability of the specific company that employs the employee. A percentage adder is applied to all base and overtime labor to record the estimated tax costs. The payroll taxes adder percentage is set at the beginning of each budget year. The numerator is the prior year employer tax expense, adjusted for new tax law changes, and the denominator is prior year base and overtime labor.

The payroll taxes adder is credited to account 408.1 (Payroll Tax Expense) and is debited based on the nature of the project to which the original labor is charged. Each payroll cycle, payroll tax expense is debited for the actual payroll tax liability that is incurred. The difference between the adder and the actual payroll tax remains as a debit in account 408.1.

Stores Adders:
Locational stores costs include the supervision, labor and other expenses incurred in the purchasing, storage, handling and distribution of materials and supplies related to a particular location or business unit. As materials are issued, a rate is applied as a percentage adder to the material cost to allocate these general purchasing and handling costs. Adder rates are determined at the beginning of each budget cycle for each business unit or location.
Corporate stores adders are calculated by dividing corporate common stores purchasing, software and handling expenses by estimated materials spent for the Utilities and Service Company. Corporate stores adders are applied to all company material costs. A single rate is applied.

As Locational or Corporate stores adders are applied, they are debited to the same account as the original material charge. The offset is to a 163 sub-account. As actual stores expenses are incurred for supervision, labor and other costs, they are debited to the applicable 163 sub-account. Stores account balances are reviewed throughout the year and adjusted as needed. Residual balance in the Corporate stores adder pools are cleared to zero at year-end.
B. Construction Work In Progress (CWIP) Indirect Overhead Allocations

The indirect costs of CWIP are construction-related costs not directly assignable to specific projects. These costs are accumulated in several pre-assigned projects for general construction overheads. These costs include, for example, salaries (secretarial, engineering and other), office supplies, meals and travel, telephone service, postage, computer services, consultants' charges, other outside services, employee benefits, rents, miscellaneous general expense, construction site security, construction site safety and medical, etc. as they relate to capital projects. In general, salaries are charged directly to expense and capital on the source transaction (time sheets) based on the functions performed by the employee or his or her organization unit. Still others (such as rents and telephone costs) generally follow the expense versus capital distribution of labor associated with the organizational unit. Other charges (such as charges by outside consultants) are charged between expense and capital accounts on the basis of case-by-case analysis. None of the indirect overhead projects accumulate AFUDC.

Overheads are allocated to projects with certain work order types. The allocation basis determines how the charges in the Overhead Project are allocated. The overhead projects with company labor only use the labor charges to the projects to allocate the charges in the overhead project. The overhead projects with total additions use all charges to a given project to allocate the charges in the overhead project.

The following table is a listing of all Capital Indirect Overhead Projects:

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<td>All charges, Fixed percentage</td>
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C. Service Company Allocation Metrics

The following ratios and allocation metrics are applied to allocate costs accumulated on work orders for identified products and services. Metrics are reviewed periodically and revised as appropriate for changes in accounting methods, policies and procedures, services offered, and organizational structures.

Asset Ratio:
A ratio, the numerator of which is the total assets, net of investment in subsidiaries, goodwill and FAS 143 Asset Retirement Obligations, of a Client Company and the denominator of which is the total assets, net of investment in subsidiaries, goodwill and FAS 143 Asset Retirement Obligations, of all Client Companies.

Average Hourly Rate - Aircraft (not currently in use):
A ratio, the numerator of which is the variable costs of aircraft expenses and the denominator of which is the total hourly usage of all Client Companies.

Circuit Count Ratio (not currently in use):
A ratio, the numerator of which is the number of telecommunication circuits of a Client Company and the denominator of which is the number of telecommunication circuits of all the Client Companies. For each fiscal year,

- The ratio is calculated using counts estimated during the budget cycle for such year,
- Each Client Company is charged a monthly actual amount determined by multiplying the actual costs by the ratio for such Company,
- The ratio is adjusted when actual distributed costs vary significantly from estimated costs,
- Residual costs, if any, are allocated in the same proportions as the actual monthly fees including adjustments, and
- Residual costs may be allocated at intervals during the fiscal year, but final allocations are made at the end of such year.

FTE’s Assigned Ratio (not currently in use):
A ratio, the numerator of which is the number of hours a full-time employee is assigned to a Client Company and the denominator of which is the number of hours full-time employees are assigned to all Client Companies.

Global Ratio (not currently in use):
A ratio, the numerator of which is the actual expenses charged to a Client Company and the denominator of which is the actual expenses charged to all Client Companies participating in a group of related services.
Headcount Ratio:
A ratio, the numerator of which is the headcount of a Client Company and the denominator of which is the headcount of all the Client Companies.

Historical Claims Ratio (not currently in use):
A ratio, the numerator of which is the historical claims incurred by a Client Company and the denominator of which is the historical claims incurred by all Client Companies.

Information Technology Application Index Ratio (not currently in use):
A ratio, the numerator of which is the index value of each business software application of a Service Company Department or a Client Company and the denominator of which is the index value of each business software application of all Service Company Departments and Client Companies. The index value for each business software application is derived from the application’s resource and service requirements. For each fiscal year,

- The ratio is calculated using values estimated during the budget cycle for such year.
- Each Service Company Department and Client Company is charged a monthly actual amount determined by multiplying the monthly actual costs of the product by the ratio for such Company,
- The ratio is adjusted when actual index values vary significantly from estimated counts.

Information Technology Application Chargeback Ratio:
A ratio developed to allocate support for software applications. Costs are allocated on tiered service levels.

- Different tiers are used and the level of service is determined by the application owner based on their needs, such as availability of the application, IT&T response time, data back up and disaster recovery needs, and annual maintenance support.

Information Technology Distributed Cost Ratio:
A ratio, the numerator of which is the IT costs distributed to a Service Company Department or a Client Company and the denominator of which is the IT costs excluding IT applications development and enhancement charges distributed to all Service Company Departments and Client Companies. For each fiscal year,

- The ratio is calculated using values estimated during the budget cycle for such year.
- Each Service Company Department and Client Company is charged a monthly actual amount determined by multiplying the monthly actual costs by the ratio for such Company,
- The ratio is adjusted when actual distributed costs vary significantly from estimated.

Information Technology Standard Labor Rate (not currently in use):
A rate, the numerator of which is the direct salary and associated adders (payroll taxes, benefits, exceptional hours) plus other employee related expenses, and the denominator of which is the hours worked for all Service Company Departments and Client Companies. For each fiscal year:
The rate is calculated using costs and counts estimated during the budget cycle for such year,

Each Service Company Department and Client Company is charged at the standard rate for each hour worked, or actual costs if the cost of the resources required to perform the work differs significantly from the cost of the resources included in the standard rate,

Residual costs are allocated using a ratio, the numerator of which is the actual hours charged to a Service Company Department or Client Company and the denominator of which is the actual hours charged to all Service Company Departments and Client Companies.

Residual costs may be allocated at intervals during the fiscal year but final allocations of residual costs are made at the end of such year.

**Information Technology Standard Desktop Services Rate (not currently in use):**
A rate, the numerator of which is the direct salary and associated adders (payroll taxes, benefits, exceptional hours) plus other employee related expenses, and the denominator of which is the number of devices supported for all Service Company Departments and Client Companies. For each fiscal year:

- The rate is calculated using costs and counts estimated during the budget cycle for such year,
- The Service Company and each Client Company Department is charged at the standard rate for each device supported, or actual costs if the cost of the resources required to perform the work differs significantly from the cost of the resources included in the standard rate,
- Residual costs may be allocated at intervals during the fiscal year, but final allocations are made at the end of such year.

**Information Technology Standard E-mail Ratio (not currently in use):**
A ratio, the numerator of which is the number of e-mail accounts for a Service Company Department or Client Company receiving the service and the denominator of which is the number of e-mail accounts of all Service Company Departments and Client Companies receiving the service. For each fiscal year,

- The ratio is calculated using counts estimated during the budget cycle for such year.
- Each Service Company Department and Client Company is charged a monthly actual amount determined by multiplying the actual costs by the ratio for such Company,
- The ratio and associated monthly fees are adjusted when actual counts vary significantly from estimated counts,

**Information Technology Standard Personal Computer and Device Rate:**
The rates, the numerator of which is the cost of providing a service for a device and the denominator of which is the number of devices of all Service Company Departments and Client Companies. For each fiscal year,

- The rates are calculated using costs and counts estimated during the budget cycle for such year.
- The Service Company and each Client Company Department is charged a monthly actual amount determined by multiplying the rate and the actual device count for such Department or Company,
• Residual costs are allocated based on the year-to-date actuals for each Client Company Department and the Service Company at a particular point in time.
• Residual costs may be allocated at intervals during the fiscal year, but final allocations are made at the end of such year.

Insurable Values:
A ratio, the numerator of which is the insurable values of a Client Company and the denominator of which is the insurable values of all the Client Companies.

Invoice Ratio:
A ratio, the numerator of which is the number of invoices of a Client Company and the denominator of which is the number of invoices of all the Client Companies.

Labor Dollars Ratio (not currently in use):
A ratio, the numerator of which is the labor dollars of a Client Company and the denominator of which is the labor dollars of all the Client Companies.

Miles and Hours of Usage Allocation Metric (not currently in use):
For fleet and transportation costs, all vehicles are tracked by vehicle number, vehicle class and ownership using a Vehicle Management System (“VMS”). Each vehicle class is assigned a usage factor (e.g. cost per mile or cost per hour). Miles driven and hours used are tracked for each vehicle driven. The VMS calculates the amount to charge the organization based on the usage entered, the usage factor for that class of vehicles and the owner of the vehicle.

Number of Vehicles Managed Ratio (not currently in use):
A ratio, the numerator of which is the number of vehicles managed for a Client Company and the denominator of which is the number of vehicles managed for all the Client Companies.

Prior Year Usage Ratio (not currently in use):
A ratio, the numerator of which is the actual prior year usage of a Client Company and the denominator of which is the actual prior year usage of all Client Companies.

Square Footage Ratio (not currently in use):
A ratio, for infrastructure costs, the numerator of which is the square footage of the Service Company departments or a Client Company and the denominator of which is the square footage of all Service Company and Client Company departments. A ratio, for non-infrastructure costs, the numerator of which is the actual square footage of a Client Company and the denominator of which is the actual square footage of Client Companies benefiting from the service.

Three Factor Method:
The Three Factor Method measures three equally weighted factors to arrive at an allocation percentage for each Client Company. The first factor is a Revenue Ratio, the numerator of which is the total operating revenue and dividend income of a Client Company and the denominator of which is the total operating revenue and dividend income of all Client Companies. The second factor is an Asset Ratio, the numerator of which is the total assets, net of investment in subsidiaries, goodwill and FAS 143 asset retirement obligations of a Client
Company and the denominator of which is the total assets, net of investment in subsidiaries, goodwill and FAS 143 asset retirement obligations of all Client Companies. The third factor is an Operating Expense Ratio, the numerator of which is the total operating expenses of a Client Company and the denominator of which is the total operating expenses of all Client Companies.

**Two Factor Method (not currently in use):**
The Two Factor Method measures two equally weighted factors to arrive at an allocation percentage for each Client Company. The first factor is an Asset Ratio, the numerator of which is the total assets, net of investment in subsidiaries and goodwill, of a Client Company and the denominator of which is the total assets, net of investment in subsidiaries and goodwill, of all Client Companies. The second factor is Revenue, the numerator of which is the total operating revenue and dividend income of a Client Company and the denominator of which is the total operating revenue and dividend income of all Client Companies.

**Undepreciated Assets Ratio (not currently in use):**
A ratio, the numerator of which is the undepreciated assets of a Client Company and the denominator of which is the undepreciated assets of all the Client Companies.
D. Utility and Associate Companies Allocation Metrics

The following ratios and allocation metrics are used to allocate costs accumulated on work orders for identified products and services. Metrics are reviewed periodically and rates revised as appropriate for changes in accounting methods, policies and procedures, and services offered.

Commercial, Industrial & Governmental (CIG) Customers Ratio:
A ratio, the numerator of which is the number of commercial, industrial and governmental electric customers of a Client Company and the denominator of which is the number of such customers of all Client Companies.

Coal Volume Allocation:
A ratio, the numerator of which is the projected tons of coal to be acquired for or on behalf of a Client Company by the Utility Company for the next calendar year, and the denominator of which is the sum of the number of tons of coal projected to be acquired for or on behalf of all Client Companies and the Utility Company.

Direct Cost Ratio:
A ratio, the numerator of which is the cost of materials, supplies or other relevant direct cost incurred by the provider entity's functional area, directly related to providing a particular service, and the denominator of which is the total cost of materials, supplies or other relevant direct cost incurred by that functional area directly related to providing that service to all Client Companies.

Energy Delivery Services (EDS) Budget Revenue Rate:
A ratio, the numerator of which is the relevant share of corporate, business unit and departmental indirect costs budgeted to EDS, and the denominator of which is the budgeted revenues for EDS. For each fiscal year, the rate is calculated using costs and revenues estimated during the budget cycle for such year.

Headcount Ratio:
A ratio, the numerator of which is the headcount of the relevant organizational area of the Utility Company permanently situated at a Client Company's facilities or locations, and the denominator of which is total headcount of the relevant organizational area of the Utility Company.

Labor Dollar Adder:
A ratio, the numerator of which is the total indirect expense related to providing a particular product or service, and the denominator of which is the cost of direct and contractor labor (in dollars) incurred by the Utility Company's relevant functional area directly related to providing that service to all Client Companies. For purposes of the calculation, labor dollars of a particular work type (e.g., distribution, transmission, etc.) is used.

Labor Dollar Ratio:
A ratio, the numerator of which is the cost of labor (in dollars) incurred by the provider entity's functional area, directly related to providing a particular service, and the denominator of which is the total cost of labor (in dollars) incurred by that functional area directly related to providing that service to all Client Companies. For purposes of the calculation, labor dollars of a particular work type (e.g., distribution, transmission, etc.) is used.
Labor Hour Ratio:
A ratio, the numerator of which is the cost of labor (in hours) incurred by the provider entity's functional area, directly related to providing a particular service, and the denominator of which is the total cost of labor (in hours) incurred by that functional area directly related to providing that service to all Client Companies.

Level of Service Estimate:
A ratio, the numerator of which is the expected labor and non-labor direct costs of a specified service anticipated to be demanded by a Client Company, and the denominator of which is the aggregate anticipated demand (in direct cost dollars) from all Client Companies for such service.

Mass Market Customers Ratio:
A ratio, the numerator of which is the number of residential electric (or gas, as applicable) customers of a Client Company and the denominator of which is the number of such customers of all Client Companies.

Maximum Dependable Capacity Ratio (MDC):
A ratio, the numerator of which is the Maximum Dependable Capacity of generation assets owned by a Client Company and the denominator of which is the Maximum Dependable Capacity of all Client Companies.
- For Nuclear Generation Group services, only nuclear generation assets owned by Client Companies are to be considered.
- For Power Operations services, fossil-fired and hydro assets as well as combustion turbine and combined cycle units are considered as appropriate. Transmission Operations and Planning organizations include all generation assets in the MDC calculation.

MMBTU Transacted Ratio:
A ratio, the numerator of which is the volume of wholesale gas and oil commodity transacted (purchased or sold) on behalf of a Client Company (in MMBTUs) and the denominator of which is the volume of commodity transacted on behalf of all Client Companies (in MMBTUs).

MWhs Transacted Ratio:
A ratio, the numerator of which is the volume of wholesale power transacted (purchased or sold) on behalf of a Client Company in MWhs and the denominator of which is the volume of commodity transacted on behalf of all Client Companies.

Payroll Headcount Ratio:
A ratio, the numerator of which is the number of regular, full-time active employees of a Client Company for whom paychecks are processed by the Utility Company, and the denominator of which is total number of regular, full-time active employees of all Client Companies for whom paychecks are processed.
Regional Customer Base Ratio:
A ratio, the numerator of which is the total number of Client Company customers in a regional service territory, and the denominator of which is the total number of customers of the Utility Company and all Client Companies procuring the relevant service in the relevant service territory regions.

Screening Unit Rate:
A ratio, the numerator of which is the Utility Company's cost of providing underground cable location screening services, and the denominator of which is the number of such screening services work units of all Client Companies. For each fiscal year:
- The rate is calculated using costs and work units estimated during the budget cycle for such year
- Each Client Company is charged for services by multiplying the rate and the work units actually performed by the Utility Company (the "direct charges")
- Residual costs are allocated in the same proportions as the direct charges, including adjustments, at the end of such year

Total Agent-Handled Calls Ratio:
A ratio, the numerator of which is the number of agent-handled customer care calls processed by the Utility Company on behalf of a Client Company, and the denominator of which is the total number of after-hours, agent-handled customer care calls of the relevant organizational area of the Utility Company.

Total Customers Ratio:
A ratio, the numerator of which is the number of total retail residential, commercial, industrial and governmental electric (or gas, as applicable) customers of a Client Company and the denominator of which is the number of such customers of all Client Companies.

Vehicle Cost Ratio:
A ratio, the numerator of which are the hours of vehicle use and/or miles of usage directly related to providing a particular service by the provider entity's functional area, and the denominator of which is the total hours of vehicle use and/or miles of usage directly related to providing that service to all Client Companies by that functional area.
VI. Listing of Services and Metrics Utilized by Service Provider

A. Progress Energy Service Company

A general description of each PESC department’s services, which may be modified from time to time by the Service Company without notice, and method or methods of allocation used by the department for costs accumulated on work orders of a general nature, is documented below. No substitution or material changes are made in methods of allocation hereinafter specified unless a new method of allocation has been requested for approval with documented business justification. Notice of any change in the methods of allocation applicable to a work order is given to the Client Companies affected. It is assumed that direct costs are used whenever possible and that only Client Companies benefiting from the service receive allocations.

Section V. C. provides the definition of each method of allocation listed below.

Section VII. A. provides a table of the legal entities receiving the services listed below.

- **Accounting**
  - Corporate Accounting
  - Description:
    1. Maintain general ledger, account keys and journal entries; manage the monthly and annual closing process; perform bank reconciliations; maintain certain customer accounting records; reconcile customer system to the general ledger; maintain non-electric service accounts receivable system and perform revenue analysis.
    2. Provide accounting and internal controls management oversight across the entire enterprise.
    3. Develop internal and external financial reports; perform accounting policy & research support; provide financial systems support and Service Company Controller functions.
    4. Develop regulatory financial reports and consult on proper regulatory treatment of various accounting transactions; maintain records and reports on fuel-related transactions; work with local regulatory bodies to discuss and respond to emerging regulatory issues.
    5. Provide wholesale and trading billing; controller, analytical, payroll, accounting, financial reporting and analytical support for discontinued operations. Maintains general ledger, account keys and journal entries; manages the monthly and annual closing processes; performs bank reconciliations; maintains certain customer accounting records; reconciles customer system to the general ledger; maintains non-electric service accounts receivable system and performs revenue analysis.
    6. Provide RCO back-office support and contracts support includes invoicing, closing and cash settlements for Regulated Commercial Operations and Regulated Fuels Departments
  - Methods of Allocation: Direct cost and Three factor method.
• **Property, Plant & Materials**
  
  - **Description**: Provide oversight and administration of the property and materials accounting function for the utility to ensure proper accounting treatment of all property, plant and materials.
  - **Method of Allocation**: Asset ratio.

• **Disbursements**
  
  - **Description**: Analyzes and processes invoices and payments; administers procurement and commercial credit card process.
  - **Method of Allocation**: Invoice ratio.

➤ **Audit Services**
  
  - **Description**: Provides an independent and objective appraisal of the adequacy of business controls and effectiveness as well as efficiency of company operations. Also includes administration of the Corporate Ethics Program and business controls education.
  - **Methods of Allocation**: Direct cost and Asset ratio.

➤ **Capital Planning & Project Assurance**
  
  - **Description**: Develop and oversee governance, procedures and controls over capital spending for the enterprise
  - **Method of Allocation**: Asset ratio.

➤ **Corporate Communications**
  
  - **Description**:
    1. Provide management oversight across the entire function; develop and distribute key company messages to external media as primary corporate spokespersons; manage the company’s strategic philanthropy and brand position and direct the corporate image through advertising and public relations; coordinate support activities for special corporate events, sponsorship, and sports marketing; and provide communication planning and consulting services.
    2. Manage corporate donations.
    3. Manage the Company’s brand position and ensure consistency in brand messages both internally and externally; direct the corporate advertising image.
    4. Manage systems and create tactical tools to keep employees informed and engaged about strategic business developments.
    5. Provide support for the Demand Side Management and Customer Information Group.
    6. Provide generation communications management for corporate communication services.
  - **Methods of Allocation**: Direct cost and Three factor ratio.
Corporate Planning

- Corporate Planning
  - Description:
    1. Provide management oversight across the entire corporate planning function.
    2. Maintain responsibility for corporate strategic planning at the enterprise level.
    3. Coordinate and develop plans and budgets for corporate and line organizations; prepare and present results of financial forecasts and provide financial and planning support for the regulatory and strategic planning process.
    4. Develop regulatory strategic plans for both PEC and PEF; provide regulatory cost recovery, pricing, and service filings support; develop and implement jurisdictional rates and competitive pricing options; provide embedded and marginal cost-of-service expertise and analyses in support of rate development and strategic business unit needs; and provide expertise and guidance in the application of state and FERC rate schedules, riders and service regulations.
    5. Provide market research services to the electric utilities.

- Methods of Allocation: Direct cost and Three factor ratio.

Corporate Planning Business Services

- Description: Provide cost management support across Service Company departments; provide executive support.
- Method of Allocation: Three factor ratio.

Corporate Relations

- Description: Provide management oversight across the entire Corporate Relations and Administrative Services Group.
- Method of Allocation: Three factor ratio.

Corporate Services

- Corporate Services Management:
  - Description:
    1. Provide management oversight across the entire Corporate Services function.
    2. Provide governance services, common programs and standards, contract management for records and procedures and controlled document needs.
    3. Conduct negotiations, management and application support for industry standards, technical documents, and common business research tools; direct research support for critical business decisions.
    4. Buy, sell, lease and develop real estate; provide lake, timber and land management.
    5. Provide environmental project support including those related to remediation.
    6. Facility planning and programming from conceptual need identification to design construction and occupancy; facility engineering; provide decommissioning or closing services for facilities for disposition by others.
    7. Manage labor, supplies, equipment, postage, and contracts in support of corporate
mail operations (excluding printing and mailing bills).

8. Provide management oversight across the entire health and safety function.

9. Conduct driver (CDL) qualification; perform drug and alcohol testing and training; conduct medical evaluations.

10. Develop programs and procedures, track regulatory issues, review events, investigate accidents and operating experiences, keep records on compliance, track contractor safety, provide health and safety support and provide industrial hygiene support.

   - Methods of Allocation: Direct cost and Asset ratio.

- Corporate Air
  - Description: Maintain and pilot corporate aircraft including lease of aircraft, hangar fees, pilots' salaries and other expenses.
  - Method of Allocation: Three factor ratio.

- Corporate Security
  - Description:
    1. Provide executive and headquarters protection services; professional investigation; physical security services; drug testing and background investigation services; workplace violence prevention; and Business Continuity and Enterprise Crisis Management programs.
    2. Produce and maintain employee security ID cards, including the database.

- Florida Corporate Headquarters
  - Description: Full service management of facilities for Florida corporate headquarters buildings.
  - Method of Allocation: Direct cost.

- Carolinas Corporate Headquarters
  - Description: Full service management of facilities for Carolinas corporate headquarters building; manage corporate leases and facilities for future use.

- Property Management
  - Description:
    1. Provides facilities management and electricity expenses for the Corporate Data Center.
    2. Provide full service management of corporate facilities throughout the consolidated entity.
  - Methods of Allocation: Direct cost and Headcount ratio.
Equipment Repairs
- Description: Repair transformers and other oil-filled equipment and test rubber goods (lineman’s safety equipment) including PCB and oil handling.
- Methods of Allocation: Direct cost.

-executive management
- Service Company Executive Benefits
  - Description: Service Company Executive Benefits.

- Resource Sharing
  - Description:
    1. Provide storm support services
    2. Provide additional labor resources to client companies.
  - Method of Allocation: Direct cost.

- Senior Management
  - Description:
    1. Provide management oversight across the entire Financial Services group.
    2. Service Company President and CFO.
    3. CEO/Chairman.

-executive relations
- Description:
  1. Manage retail regulatory issues and activities with the states utilities commissions and provide support for federal and state legislative affairs regarding retail matters; obtain state utilities commission’s approvals of all Company initiatives.
  2. Influence legislation and shape public policy and opinion on major corporate issues; monitor and track legislation; build goodwill and relationships at the federal level.
  - Methods of Allocation: Direct cost and Three factor ratio.

-human resources
- Human Resources Executive Benefits
  - Description: Administers officer and director specific benefit plans.
  - Method of Allocation: Three factor ratio

- Human Resources
  - Description:
    1. Provide consultation and support on affirmative action, equal employment
opportunity and diversity.

2. Manage overall Human Resources information; administer the PeopleSoft Human Resources Information System (HRIS); and provide benefits administration.

3. Recruit, screen, test and interview applicants and consult with managers on staffing plans and issues.

4. Provide executive and personal developmental training and employee development programs.

5. Provide management oversight across the entire human resources function.

6. Provide corporate support for labor related issues.

7. Provide consultation and support to managers and employees in the business units; includes cost of the HR service manager and representatives who provide HR management.

8. Administer base compensation and other compensation programs; administers health, welfare, qualified plans and executive benefits.

9. Provides the employee information line, benefits administration, compensation administration and policies/practices, and administers corporate relocations services and pre-retirement seminars.

- Method of Allocation: Direct cost and Headcount ratio.

**Information Technology and Telecommunications (IT&T)**

- **Applications - Development and Enhancement**
  - Description: Plan, design, implement and enhance business software applications.
  - Method of Allocation: Direct cost.

- **Application Operation - Mainframe**
  - Description: Expenses associated with operating and maintaining the Passport application.
  - Methods of Allocation: Direct cost and Headcount ratio.

- **Business Applications Services**
  - Description: Operate and maintain business software applications and associated operating platforms.
  - Method of Allocation: Direct cost using IT Application chargeback ratio.

- **Desktop Services**
  - Description:
    1. Operational IT processes and functions that provide desktop support to users.
    2. Personal computer hardware and standard desktop software.

- **IT Infrastructure & Management**
  - Description: Provide management oversight, relationship management, cost management, administrative support and organizational work point costs that are required to operate the IT departments.
- Method of Allocation: Information Technology Distributed Cost ratio.

- Multifunction Printing Devices (MPD) / Copier / Fax
  - Description: Expenses for the lease and maintenance of multi-function printers, copiers and faxes.

- Telecom Client Projects
  - Description: Provide one time or infrequent telecommunications services such as installation of telecom equipment in new facilities, removal of equipment from facilities, or improving telecommunication services, per client requests.
  - Method of Allocation: Direct cost.

- Infrastructure Capital
  - Description: One time or infrequent capital infrastructure or telecommunications work done on behalf of specific Service Company client or clients or for the overall corporate infrastructure. (All such projects are capital projects.)
  - Method of Allocation: Direct cost.

- Telecommunications Infrastructure and Maintenance
  - Description: O&M cost of operating and maintaining Progress Energy local and wide area data networks and the corporate voice network, 800 service, local and long distance telephone service, wired telephone, and dedicated data circuits, management oversight, relationship management, cost management, administrative support and organizational work point costs that are required to operate telecommunications infrastructure.

- Wireless Services
  - Description: Corporate telecommunications vendor invoiced cost of cell phones, pagers, and data devices.

- Investor Relations
  - Description: Manage relations with the financial community.
  - Method of Allocation: Three factor ratio.

- Legal
  - Description:
    1. Provide investigation and settlement support and payment of claims; coordinate the collection of monies owed to the Company for damage to Company facilities and equipment as a result of third party negligence.
2. Coordinate Board of Directors ("BOD") activities and handles shareholder relations.
3. All activities associated with providing legal services and support in all matters related to company operations; management oversight over the entire Legal function.
4. Manage regulatory issues and activities with state utility commissions and the FERC; ensure compliance with national and regional reliability standards and provide support as needed for state and federal legislative matters.
   • Methods of Allocation: Direct cost and Three factor ratio.

➢ Service Company Corporate
   • Leasehold Improvements
     • Description: Amortization of leasehold improvement projects for corporate headquarters leased facilities in the Carolinas and Florida.
     • Methods of Allocation: Direct cost and Headcount ratio.

   • Depreciation Expense
     • Description: Depreciation expense of Service Company assets.
     • Method of Allocation: Asset ratio.

   • Estimated Allocation
     • Description: Manual allocation of Service Company residual costs.
     • Method of Allocation: Three factor ratio.

   • Service Company Charges
     • Description: Used to allocate Service Company charges (rent, corporate aircraft, and IT&T charges) that are attributable to services provided to Service Company departments.
     • Method of Allocation: Three factor ratio.

   • Interest Expense and Income
     • Description: Service Company interest expense payments and interest income.
     • Method of Allocation: Three factor ratio.

   • NuStart Earnings
     • Description: Distribute earnings related to NuStart.
     • Method of Allocation: Asset ratio.

   • Operating Lease
     • Description: Non-capital lease payments.
     • Method of Allocation: Asset ratio.
- Progress Energy Service Company Corporate Expenses
  - Description: General corporate expenses not budgeted at the department level.
  - Method of Allocation: Three factor ratio.

- Property Tax
  - Description: Service Company property tax payments.
  - Method of Allocation: Three factor ratio.

- Service Company Tax Expense and Tax Savings Initiative
  - Description: Service Company tax expenses.
  - Method of Allocation: Three factor ratio.

- Service Company Employee Incentives
  - Description: Service Company employee and management incentives.
  - Method of Allocation: Three factor ratio.

- Workers’ Compensation
  - Description:
    1. Liability and workers' compensation insurance premiums.
    2. Provide excess workers’ compensation insurance.
    3. Payroll tax required to maintain our self-insured workers’ compensation status in North Carolina.
  - Methods of Allocation: Direct cost and Headcount ratio.

- Nuclear Premium and Credit
  - Description: Nuclear property and liability insurance premium and credit for good experience.
  - Method of Allocation: Direct cost.

- Other Insurance
  - Description: Crime, director and officer, aircraft, fiduciary and special insurance premiums.
  - Method of Allocation: Three factor ratio.

- Property Insurance
  - Description: Property insurance premiums.
  - Method of Allocation: Direct cost and Insurable values ratio.

- FAS 146 - Florida
  - Description: Break out FAS 146 component for corporate rent and leasehold improvements in Florida. (FAS 146 is the Financial Accounting Standard that addresses financial accounting and reporting for exit or disposal activities.)
  - Method of Allocation: Direct cost.
• FAS 146 - Carolinas
  • Description: Break out FAS 146 component for corporate rent and leasehold improvements in the Carolinas.
  • Method of Allocation: Headcount ratio.

➤ State Public Affairs and Economic Development
  • Description:
    1. Provide services associated with promoting economic development within our service territory.
    2. Provide oversight, management and administration services for State Public Affairs and Economic Development work activities.
    3. Influence legislation and shape public policy and opinion on major corporate issues; monitor and track legislation; build goodwill at the state level.
    4. Description: Collaborate with various departments within the enterprise to coordinate communications strategy and ensure consistency in all messages regarding new generation.
  • Methods of Allocation: Direct Cost and Asset ratio.

➤ Supply Chain Management
  • Description:
    1. Provide governance, training and oversight over sourcing and procurement activities within the department and across the enterprise; manages the Supplier Diversity Program.
    2. Identify contract and leasing sources; prepare contracts for services and leasing and resource sharing.
    3. Provide contract administration services.
    4. Overhead associated with managing the Information Technology & Telecommunications parts warehouses.
  • Method of Allocation: Asset ratio.

➤ Tax
  • Payroll
    • Description: Conduct time entry, maintain payroll system, run payroll, produce payroll-related reports and process employee expense reports.
    • Method of Allocation: Headcount ratio.

• Tax Services
  • Description: Conduct tax planning, audits and prepare returns.
  • Method of Allocation: Direct cost and Three factor ratio.
➢ Treasury and Enterprise Risk Management

- Analysis and Measurement
  - Description:
    1. Provide analysis support for business case development for various initiatives.
    2. Measure and report corporate risk exposures; provides risk management training, tools, controls and strategies.

- Treasury Operations and Management
  - Description:
    1. Provide management oversight across the entire Treasury function and manage the performance of external trust funds.
    2. Manage the efficient movement of company funds through the banking system and secure short-term debt financing and/or investments.
    3. Manage external financing and investments, bank relationships and the cost of capital and ensure compliance with financing documents.
    4. Manage the corporate insurance program.
    5. Financial administration fees, such as bank fees.
    6. Provide risk management services for Progress Ventures by controlling and reporting risk associated with Progress Ventures speculative and asset-backed activities.
  - Method of Allocation: Direct cost and Three factor ratio.
B. Utility and Associate Companies Clearing Accounts

The following clearing accounts have been defined to accumulate various Non-Service Company related common costs that are general in nature and allocated to the appropriate organizations and/or companies on a monthly basis. Each allocation pool is split into nine major resource types to identify Employee Labor, Outside Labor, Materials, Revenue, Fuel, Payroll Taxes, Benefits, Pensions and Other costs. Generally, each pool is allocated via a pre-determined percentage to each target organization and/or legal entity.

Section V. D. provides the definition of each method of allocation listed below.

Section VII. B. provides a table of the legal entities receiving the services listed below.

- **Business Services**
  - Business Services Support
    - Account - 1840BSS
    - Description - This account accumulates administrative and financial management costs incurred by Business Services Support not directly charged.
    - Activity – X0803, X0804, X0805
    - Method - Costs are allocated to Progress Energy Carolinas based on Level of Service Estimate.

  - Progress Energy Power Operations Finance
    - Account - 18400WI
    - Description - This account accumulates operations business services costs incurred in support of the Power Operations organization, excluding fossil support costs which are in Account 1840FGD.
    - Activity - X0054
    - Method - Costs are allocated to the Progress Energy Carolinas and Progress Energy Florida fossil and CT units based on Level of Service Estimate.

  - VP Finance PEF
    - Account – 1840FIN
    - Description - This account accumulates costs incurred by PEF Finance (VP-Finance and Planning and Strategy Section) which are allocated to the appropriate PEF entities based on the annual budgeted cost of business units with this organization to those entities.
    - Activity - X0833
    - Method - Costs are allocated to the appropriate PEF entities based on Level of Service Estimate.
➢ **Energy Delivery**
   - Radio Maintenance
     - Account - RADIOMAINT
     - Description - This account accumulates radio maintenance costs incurred in support of the Energy Delivery radio system.
     - Activity - N/A
     - Method - Costs are allocated to the Energy Delivery section of Progress Energy Carolinas and Progress Energy Florida based on number of devices.

➢ **Nuclear Generation**
   - NED-MDC 520
     - Account - 18400WD
     - Description - This account is used to accumulate probability and risk assessment costs incurred by the Nuclear Engineering Services Department in support of the Carolina and Florida nuclear plants.
     - Activity - X0061
     - Method - Costs are allocated to the Progress Energy Carolinas and Progress Energy Florida nuclear plants based on Maximum Dependable Capacity Ratio (MDC).
   - NED-Nuclear Fuel Administrative Costs
     - Account - 18400WM
     - Description - This account is used to accumulate all charges incurred for nuclear fuel labor and miscellaneous costs by the Nuclear Fuels Management and Safety organization in support of the Carolina and Florida nuclear plants.
     - Activity - X0060
     - Method - Costs are allocated to the Progress Energy Carolinas and Progress Energy Florida nuclear plants based on Maximum Dependable Capacity Ratio (MDC).
   - NED Supervisor Indirect Costs
     - Account - 18400WG, 1840SWG
     - Description - This account accumulates general supervisory costs incurred by the Nuclear Engineering Services Department head and staff in support of the Carolina and Florida nuclear plants.
     - Activity - X0056
     - Method - Costs are allocated to the Progress Energy Carolinas and Progress Energy Florida nuclear plants based on Maximum Dependable Capacity Ratio (MDC).
   - NES Radiological Services
     - Account - 18400YW
     - Description - This account is used to accumulate costs incurred by the Radiological and Metallurgical Services of the Nuclear Engineering Services Department in support of the Carolina and Florida nuclear plants.
- Activity - X0160
- Method - Costs are allocated to the Progress Energy Carolinas and Progress Energy Florida nuclear plants based on Maximum Dependable Capacity Ratio (MDC).

**NGG Finance & Administrative Services**
- Account - 18400WJ
- Description - This account is used to accumulate all costs incurred in the NGG Finance & Administrative Services group in support of the Carolina and Florida nuclear plants.
- Activity - X0059
- Method - Costs are allocated to the Progress Energy Carolinas and Progress Energy Florida nuclear plants based on Maximum Dependable Capacity Ratio (MDC).

**NIT Supervisor Indirect Costs**
- Account - 18400WL
- Description - This account accumulates general supervisory costs incurred by the Nuclear IT department in support of the Carolina and Florida nuclear plants, and Passport maintenance for Nuclear Operations and Power Operations.
- Activity - X0063
- Method - Costs are allocated to the Progress Energy Carolinas and Progress Energy Florida Nuclear Operations and Power Operations organizations based on Maximum Dependable Capacity Ratio (MDC) and Level of Service Estimate.

**NES Labs/Analytical Services**
- Account - 18400TJ
- Description - This account accumulates costs incurred by the Chemistry Services Section and the Environmental Support Department.
- Activity - X0172

**NES-Nuclear Material Control**
- Account - 18400WY
- Description - This account is used to accumulate costs incurred by employees of the Nuclear Materials Services organization for administrative support of material controls for the Carolina and Florida nuclear plants.
- Activity - X0113
- Method - Costs are allocated to the Progress Energy Carolinas and Progress Energy Florida nuclear plants based on Maximum Dependable Capacity Ratio (MDC).

**Nuclear Management**
- Account - 18400WK
- Description - This account accumulates nuclear management costs incurred by the Chief Nuclear Officer that are not directly chargeable to other departments.
Activity - X0062
Method - Costs are allocated to the Progress Energy Carolinas and Progress Energy Florida nuclear utility based on Maximum Dependable Capacity Ratio (MDC).

Nuclear Security Indirects
Account - 1840SEC
Description - This account accumulates the costs incurred by the Nuclear Security section for administrative support for Carolinas and Florida nuclear plants.
Activity - X0706
Method - Costs are allocated to the Progress Energy Carolinas and Progress Energy Florida nuclear plants based on Level of Service Estimate.

PERA Supervisor Indirect Costs
Account - 18400WF
Description - This account accumulates general supervisory costs incurred by the Performance Evaluation and Regulatory Affairs organization in support of the Carolina and Florida nuclear plants.
Activity - X0058
Method - Costs are allocated to the Progress Energy Carolinas and Progress Energy Florida nuclear plants based on Maximum Dependable Capacity Ratio (MDC).

Nuclear New Plant COL
Account – 184NCOL
Description - This account accumulates nuclear new plant development costs associated with Combined Operating License activities that cannot be directly charged to a specific location.
Activity - X0819
Method - Costs are allocated to Progress Energy Carolinas and Progress Energy Florida based on Level of Service Estimate.

Nuclear New Plant O&M
Account – 184NPOM
Description - This account accumulates nuclear new plant development operating costs that cannot be directly charged to a specific location.
Activity - X0820
Method - Costs are allocated to Progress Energy Carolinas and Progress Energy Florida based on Level of Service Estimate.

Power Operations
Carolinas Combustion Turbine Indirect
Account - 18400CT
Description - This account accumulates general administrative and management costs incurred in the Progress Energy Carolinas CT Operations group that cannot be directly charged to a specific location.
Activity - X0188
Method - Costs are allocated to Progress Energy Carolinas regulated CT plants based on their Maximum Dependable Capacity Ratio (MDC).

Florida Combustion Turbine Indirect
Account – 1840FCT
Description – This account accumulates general and administrative costs of the Progress Energy Florida CT Operations group that cannot be directly charged to a specific location.
Activity – X0194
Method – Costs are allocated to specific Progress Energy Florida CT plants based on Maximum Dependable Capacity Ratio (MDC).

Power Operations Management
Account - 1840POE
Description - This account accumulates executive and related administrative costs for the Power Operations organization that are not directly chargeable to other departments.
Activity - X0827
Method - Costs are allocated to the Progress Energy Carolinas and Progress Energy Florida utility based on Maximum Dependable Capacity Ratio (MDC).

FGD Department Staff Clearing
Account - 1840FGD
Description - This account accumulates general administrative and management costs incurred in the Progress Energy Fossil Generation Department in support of the Carolinas fossil and hydro plants and the Florida fossil plants that cannot be directly charged to a specific location.
Activity - X0701
Method - Costs are allocated to Progress Energy Carolinas and Progress Energy Florida fossil and hydro plants based on their Maximum Dependable Capacity Ratio (MDC).

FGD East Region Indirects for East Region Managers
Account - 1840FER
Description - This account accumulates general administrative and management costs incurred in the Progress Energy Carolinas Fossil Generation Department in support of the Eastern Region.
Activity - X0723
Method - Costs are allocated to Eastern Region fossil plants in Progress Energy Carolinas based on their Maximum Dependable Capacity Ratio (MDC).
• FGD Indirects for Progress Energy Carolinas Regional Managers
  • Account - 18400WE
  • Description - This account is used to accumulate all charges incurred by Progress Energy Carolinas Regional Managers for administrative and business needs support for Progress Energy Carolinas fossil and hydro plants that are not charged directly.
  • Activity - X0057
  • Method - Costs are allocated to Progress Energy Carolinas fossil and hydro plants based on their Maximum Dependable Capacity Ratio (MDC).

• FGD West Region Indirects for West Region Managers
  • Account - 1840FWR
  • Description - This account accumulates general administrative and management costs incurred in the Progress Energy Carolinas Fossil Generation Department in support of the Western Region.
  • Activity - X0722
  • Method - Costs are allocated to Western Region fossil and hydro plants in Progress Energy Carolinas based on their Maximum Dependable Capacity Ratio (MDC).

• FL Fossil Steam Indirects
  • Account - 1840FST
  • Description - This account accumulates general and administrative costs of the Progress Energy Florida Fossil Operations group in support of the Florida fossil steam plants that cannot be charged directly.
  • Activity - X0193
  • Method - Costs are allocated to specific Progress Energy Florida fossil steam plants based on Maximum Dependable Capacity Ratio (MDC).

• Progress Energy CT Combined Co Clearing
  • Account - 18400CC
  • Description - This account accumulates general administrative and management costs incurred in the Progress Energy CT Operations group in support of the Florida and Carolinas regulated CT plants that cannot be directly charged to a specific location.
  • Activity - X0189
  • Method - Costs are allocated to Progress Energy Carolinas and Progress Energy Florida regulated CT plants based on their Maximum Dependable Capacity Ratio (MDC).

• Turbine Support Indirect
  • Account - 18400WV
  • Description - This account is used to accumulate all charges incurred by employees of the Progress Energy Carolinas Fossil Generation Department, Turbine Generator Services Section that do not charge their labor costs directly to other organizations.
  • Activity - X0052
Method - Costs are allocated to the Progress Energy Carolinas fossil plants and Progress Energy Carolinas nuclear plants (refueling outage related) based on the Level of Service Estimate provided and are determined by the POG Operations Business Services group.

FGS Services – Staff Support
- Account – 1840FGS
- Description – This account is used to accumulate charges incurred by Progress Energy Carolinas Fossil Operations Vice President for administrative and business support that cannot be directly charged to a specific location.
- Activity – X0818
- Method – Costs are allocated to the Progress Energy Carolinas and Progress Energy Florida fossil and hydro plants based on their Maximum Dependable Capacity Ratio (MDC).

Power Generation – PEC Clearing
- Account – 1840PGC
- Description – This account is used to accumulate charges incurred by Progress Energy Carolinas Power Generation that cannot be directly charged to a specific location.
- Activity – X0829
- Method – Costs are allocated to the Progress Energy Carolinas fossil plants, hydro plants and CT plants based on their Maximum Dependable Capacity Ratio (MDC).

Power Generation – PEF Clearing
- Account – 1840PGF
- Description – This account is used to accumulate charges incurred by Progress Energy Florida Power Generation that cannot be directly charged to a specific location.
- Activity – X0828
- Method – Costs are allocated to the Progress Energy Florida fossil and CT plants based on their Maximum Dependable Capacity Ratio (MDC).

Power Generation Services (PGS)
- Progress Energy Technical Services Department
  - Account – 184TSD, 184STSD
  - Description – This account accumulates all charges incurred by Progress Energy Carolinas POG Technical Services Department for technical support for Progress Energy Carolinas and Progress Energy Florida fossil, hydro (Carolinas only) and CT plants that are not charged directly.
  - Activity – X0702
  - Method – Costs are allocated to Progress Energy Carolinas and Progress Energy Florida fossil, hydro and CT plants based on their Maximum Dependable Capacity Ratio (MDC).
- **Environmental Services Carolinas**
  - Account – 1840ETS
  - Description – This account accumulates charges incurred by employees in the Environmental Services section in support of Energy Supply Carolinas.
  - Activity – X0729
  - Method – Costs are allocated to Progress Energy Carolinas nuclear plants, fossil plants, hydro plants and CT plants based on Level of Service Estimate.

- **Environmental Services Florida**
  - Account – 1840ETF
  - Description – This account accumulates charges incurred by employees in the Environmental Services section in support of Energy Supply Florida.
  - Activity – X0732
  - Method – Costs are allocated to Progress Energy Florida nuclear plants, fossil plants and CT plants based on Level of Service Estimate.

- **Regulated Commercial Operations (RCO)**
  - **RCO PEC Term Contracts**
    - Account - 1840CPL
    - Description - This account accumulates charges for the Progress Energy Carolinas origination and account management section within the RCO department for long term wholesale contract activity.
    - Activity - X0718
    - Method - Costs are allocated to Progress Energy Carolinas based on Level of Service Estimate.

  - **RCO Executive**
    - Account - 1840RCD
    - Description - This account accumulates executive and administrative costs incurred by the RCO department.
    - Activity - X0715
    - Method - Costs are allocated to Progress Energy Carolinas and Progress Energy Florida based on Level of Service Estimate.

  - **RCO PEF Term Marketing**
    - Account - 1840FPC
    - Description - This account accumulates charges for the Progress Energy Florida origination and account management section within the RCO department for long term wholesale contract activity.
    - Activity - X0719
    - Method - Costs are allocated to Progress Energy Florida based on Level of Service Estimate.
• RCO Power Trading
  • Account - 1840RCP, 184SRCP
  • Description - This account accumulates charges for the Power Trading section within the RCO department related to market engagement for the purpose of power purchase, excess generation sales and fuel optimization.
  • Activity - X0717
  • Method - Costs are allocated to Progress Energy Carolinas and Progress Energy Florida based on Level of Service Estimate.

• RCO Market Analysis and Evaluation
  • Account - 1840RCM
  • Description - This account accumulates charges for the Market Analysis and Evaluation section within the RCO department.
  • Activity - X0716
  • Method - Costs are allocated to Progress Energy Carolinas and Progress Energy Florida based on Level of Service Estimate.

• RCO Support Services
  • Account - 1840PVS, 184SPVS
  • Description - This account accumulates charges from other Progress Energy organizations for their support of the RCO department.
  • Activity - X0714
  • Method - Costs are allocated to Progress Energy Carolinas and Progress Energy Florida based on Level of Service Estimate.

➤ Regulated Fuels
  • Coal and By-Products Supply
    • Account -18400YD
    • Description - This account accumulates all costs that involve the activity of coal supply, by-products and re-agents, and transportation that cannot be directly charged.
    • Activity - X0079
    • Method - Costs are allocated to Progress Energy Carolinas and Progress Energy Florida fossil plants based on Level of Service Estimate.

  • Coal and By-Products Supply - PEC
    • Account - 1840CCP
    • Description - This account accumulates direct charges of Progress Energy Carolinas of the Coal Processing, Transportation and By-Product organizations that cannot be directly charged.
    • Activity - X0817
    • Method - Costs are allocated to Progress Energy Carolinas fossil plants based on Level of Service Estimate.
• Fuel Forecasting and Regulatory Support
  • Account - 184FFRS
  • Description - This account accumulates all costs related to Fuel Forecasting and Regulatory Support that cannot be directly charged.
  • Activity - X0794
  • Method - Costs are allocated to Progress Energy Carolinas and Progress Energy Florida Power Operations based on Level of Service Estimate.

• Fuel Planning
  • Account - 184FUPL
  • Description - This account accumulates all costs related to Fuel Planning section that cannot be directly charged.
  • Activity - X0797
  • Method - Costs are allocated the Gas Procurement (18400GS), Oil Procurement (18400OL) and Coal Procurement (18400YD) clearing accounts based on Level of Service Estimate.

• Gas Optimization
  • Account - 1840RCG
  • Description - This account accumulates general and administrative costs of the Gas and Oil Trading section.
  • Activity - X0720
  • Method - Costs are allocated to the Gas Procurement (18400GS) and Oil Procurement (18400OL) clearing accounts based on Level of Service Estimate.

• Gas Supply and Transportation-Plants
  • Account - 18400GS
  • Description - This account accumulates charges incurred in the management and oversight of gas supply, storage, transportation, and trading activities that cannot be directly charged.
  • Activity - X0183
  • Method - Costs are allocated to Progress Energy Carolinas and Progress Energy Florida locations that use gas with internal combustion turbines based on Level of Service Estimate.

• Oil Administration to Plants
  • Account - 18400OL
  • Description - This account accumulates charges incurred in the management and oversight of oil supply, storage, transportation, and trading activities that cannot be directly charged.
  • Activity - X0210
  • Method - Costs are allocated to Progress Energy Carolinas and Progress Energy Florida locations that use oil based on Level of Service Estimate.
Regulated Fuels Executive
- Account - 1840RGF
- Description - This account accumulates general and administrative expenses incurred by the Regulated Fuels Department.
- Activity - X0756
- Method - Costs are allocated to the Gas Procurement (18400GS), Oil Procurement (18400OL), Coal Procurement (18400YD), and Fuel Forecasting and Regulatory Support (184FFRS) clearing accounts based on Level of Service Estimate.

Regulated Fuels Support
- Account - 1840RFS
- Description - This account accumulates charges from other Progress Energy organizations for their support of the Regulated Fuels organization.
- Activity - X0757
- Method - Costs are allocated to the Gas Procurement (18400GS), Oil Procurement (18400OL), Coal Procurement (18400YD) and Fuel Forecasting and Regulatory Support (184FFRS) clearing accounts based on Level of Service Estimate.
C. Utility and Associate Companies Services and Descriptions

A general description of each Utility Company department's services, which may be modified from time to time by the Utility Company without notice, and method or methods of allocation to be used by the department for costs accumulated on work orders of a general nature, is documented below. No substitution or material change is made in methods of allocation hereinafter specified unless a new method of allocation has been approved by the various regulatory agencies. Notice of any change in the methods of allocation applicable to a work order is given to the Client Companies affected.

Section V. D. provides the definition of each method of allocation listed below.

Section VII. B. provides a table of the legal entities receiving the services listed below.

- **Capital Planning and Control**
  - Capital Planning and Control
    - Description - Planning and governance of enterprise capital and major project spending, and development and maintenance of long-term asset management plans.
    - Method of Allocation - Direct Cost or Level of Service Estimate.

- **Customer Service**
  - Customer Calls
    - Description – Answer Progress Energy Carolinas customer calls in the Progress Energy Florida Call Center and vice versa.
    - Method of Allocation – Total Customers Ratio or Total Agent-Handled Call Ratio.
  - Management
    - Description – Executive management for Customer Service.
    - Method of Allocation – Direct Cost or Total Customers Ratio.
  - Performance Solutions
    - Description – Call management scheduling, forecasting and monitoring; customer service training and support; and performance improvement projects.
    - Method of Allocation – Direct Cost or Total Customers Ratio.

- **Nuclear Generation**
  - Analytical Services
    - Description – Provide radiological, metallurgical and analytical chemistry services.
    - Method of Allocation – Direct Cost, Maximum Dependable Capacity Ratio or Level of Service Estimate.
• Engineering and Programs
  • Description – Coordinate plant engineering to facilitate standardization and provide nuclear fuel related activities to support the stations.
  • Method of Allocation – Direct Cost or Maximum Dependable Capacity Ratio.

• Information Technology
  • Description – Provide IT support and oversight for plant business applications.
  • Method of Allocation – Direct Cost, Maximum Dependable Capacity Ratio or Level of Service Estimate.

• Management and Financial Services
  • Description – Provide Nuclear executive management and financial services oversight; provide financial strategy support for Energy Supply functions; track key performance indicators and develop business plans.
  • Method of Allocation – Direct Cost or Maximum Dependable Capacity Ratio.

• Materials and Contracts Support
  • Description – Provide central procurement engineering, nuclear material acquisition, and purchasing and contracts oversight and support.
  • Method of Allocation – Direct Cost or Maximum Dependable Capacity Ratio.

• Nuclear Services Common Miscellaneous Services and Shared Resources
  • Description – Provide plant support for outages and other specific work efforts.
  • Method of Allocation – Direct Cost, Maximum Dependable Capacity Ratio or Level of Service Estimate.

• Nuclear Security Support
  • Description – Provides access authorization, nuclear background investigations and “Fitness for Duty” programs.
  • Method of Allocation – Maximum Dependable Capacity Ratio or Level of Service Estimate.

• Regulatory, Assessment and Oversight
  • Description – Provide regulatory and licensing, corrective action/operating experience, quality assurance and emergency preparedness support and oversight.
  • Method of Allocation – Direct Cost or Maximum Dependable Capacity Ratio.

➢ Power Operations Group
  • CT Operations/Maintenance
    • Description – Provide CT support and technical services.
    • Method of Allocation – Direct Cost, Level of Service Estimate or Maximum Dependable Capacity Ratio.
• Energy Control Center Training
  • Description – Develop and conduct Energy Control Center training.
  • Method of Allocation – Direct Cost or Maximum Dependable Capacity Ratio.

• Engineering
  • Description – Design and manage plant and equipment modifications, coordinate with original equipment manufacturers and monitor efficiency issues.
  • Method of Allocation – Direct Cost, Level of Service Estimate or Maximum Dependable Capacity Ratio.

• Management and Financial Services
  • Description – Provide executive and functional management for power plant development and construction, system operations and planning, energy control centers, engineering, fossil operations, CT operations and support and training; provide financial services oversight and financial and strategy support for Power Operations functions; track key performance indicators and develop business plans.
  • Method of Allocation – Direct Cost, Level of Service Estimate or Maximum Dependable Capacity Ratio.

• Operations Support
  • Description – Provide equipment expertise, troubleshoot systemic problems, conduct all fly ash activities, process improvement, outage management, work scheduling, perform maintenance services and manage accounting and billing services.
  • Method of Allocation – Direct Cost, Level of Service Estimate or Maximum Dependable Capacity Ratio.

• Plant Construction
  • Description – Provide engineering support, construction supervision, and project management for all new power plants and environmental compliance projects.
  • Method of Allocation – Direct Cost or Level of Service Estimate.

• Plant Operations – Fuel, Water and Facilities Monitoring and Management
  • Description – Monitor and maintain water quality in plants, conduct fuel analyses, manage inventory and materials levels, track burn rates, assess equipment performance and coordinate maintenance and manage fuel delivery and waste product removal.
  • Method of Allocation – Direct Cost or Level of Service Estimate.

• Plant Operations – Planning and Work Management
  • Description – Provide system expertise for plants, plan and develop work packages for various types of maintenance and schedule routine maintenance.
  • Method of Allocation – Direct Cost, Level of Service Estimate or Maximum Dependable Capacity Ratio.
System Planning
• Description - Maintain product and resource planning models and database of generating units and load forecasts, perform valuation activities and perform costing analysis in support of outage scheduling and financial forecasting.
• Method of Allocation - Direct Cost or Maximum Dependable Capacity Ratio.

Power Generation Services (PGS)
• Technical Services Support
  • Description - Provide supervision, project management, training, performance engineering, and non-destructive examination services.
  • Method of Allocation - Direct Cost, Level of Service Estimate or Maximum Dependable Capacity Ratio.

Regulated Commercial Operations (RCO)
• Co-Generation Contract Support
  • Description - Manage, structure and negotiate co-generation contracts.
  • Method of Allocation - Direct Cost or Level of Service Estimate.

• Joint Owner Contract Support
  • Description - Manage, structure and negotiate joint owner contracts.
  • Method of Allocation - Level of Service Estimate.

• Operational Support of Utility (Portfolio Management)
  • Description - Coordinate with system operations, provide cost simulations and establish cost basis for trading, coordinate two-year rolling forecast of fuel and generation costs, and provide software support to trading operations.
  • Method of Allocation - Level of Service Estimate.

• Power Trading
  • Description - Identify and execute hourly, prescheduled and forward trading opportunities, control trading risk, and identify and execute short-term purchased power operations.
  • Method of Allocation - Level of Service Estimate.

• Purchased Power Contract Support
  • Description - Manage, structure and negotiate long-term purchased power contracts.
  • Method of Allocation - Level of Service Estimate.

• Wholesale Term Contracts
  • Description - Manage long-term wholesale power marketing, structure and negotiate long-term contracts.
  • Method of Allocation - Level of Service Estimate.
- Management and Financial Services
  - Provide executive and financial services oversight and support for RCO functions, track key performance indicators and develop business plans.
  - Method of Allocation – Direct Cost, Maximum Dependable Capacity Ratio or Level of Service Estimate.

Regulated Fuels Department (RFD)
- Coal and By-products and Re-agents Procurement and Transportation
  - Description – Purchase and administration of coal supply, by-products re-agents and transportation; conduct all related analyses; and administer associated contracts.
  - Method of Allocation – Direct Cost, Coal Volume Allocation and/or Level of Service Estimate (or other cost allocation mechanism(s) permitted by the relevant state and federal regulatory bodies).
- Fuel Forecasting and Regulatory Support
  - Description - Coordinate fuel forecast and communicate anticipated results internally and externally, ensure compliance with regulatory fuel filing requirements.
  - Method of Allocation - Level of Service Estimate.
- Fuel Planning and Long-Term Origination
  - Description - Formulate longer-term fuel strategy for Progress Energy Carolinas and Progress Energy Florida; negotiate and execute contracts; and conduct all related analyses.
  - Method of Allocation - Level of Service Estimate.
- Gas Procurement
  - Description - Purchase, store and transport gas; manage trading opportunities; conduct all related analyses; and administer associated contracts.
  - Method of Allocation - Level of Service Estimate.
- Oil Procurement
  - Description - Purchase, store and transport oil; manage trading opportunities; conduct all related analyses; and administer associated contracts.
  - Method of Allocation - Level of Service Estimate.
- Management and Financial Services
  - Provide executive and financial services oversight and support for Regulated Fuels functions, track key performance indicators and develop business plans.
  - Method of Allocation – Level of Service Estimate.

Transmission and Distribution
- Distribution Design
- Description – Underground cable location screening.
- Method of Allocation – Direct Cost, Labor Dollar Ratio, Labor Dollar Adder or Screening Unit Rate.

- Management and Oversight
  - Description – Executive management and benchmarking (key performance indicators) and craft and technical training management for T&D.
  - Method of Allocation – Direct Cost or Headcount Ratio.
VII. Table of Services Provided to Each Legal Entity by Service Provider

A. Service Company

<table>
<thead>
<tr>
<th>Product / Service</th>
<th>2008 Allocation Basis for GL Allocations</th>
<th>Progress Energy</th>
<th>Progress Energy Carolinas</th>
<th>Progress Energy Florida</th>
</tr>
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<tbody>
<tr>
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<td>Internal Audit</td>
<td>Direct Cost and AR1</td>
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<td>Capital Planning &amp; Project Assurance</td>
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<td>Capital Planning &amp; Project</td>
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<td>Corporate Services Management</td>
<td>Direct Cost and AR1</td>
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<td>Corporate Security</td>
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<td>Florida Corporate Headquarters</td>
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<td>Carolinas Corporate Headquarters</td>
<td>Headcount Ratio</td>
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<td>Property Management</td>
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<td>Equipment Repairs</td>
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<td>Resource Sharing</td>
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<td>Senior Management</td>
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<table>
<thead>
<tr>
<th>Product / Service</th>
<th>2008 Allocation Basis for GL Allocations</th>
<th>Progress Energy</th>
<th>Progress Energy Carolinas</th>
<th>Progress Energy Florida</th>
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<td>Human Resources</td>
<td>Direct Cost and Headcount Ratio</td>
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<td><strong>Information Technology and Telecommunications</strong></td>
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<td>Application Development &amp; Enhancement</td>
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<td>DPB</td>
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<td>Application Operation - Mainframe</td>
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<td>Business Applications Services</td>
<td>IT Application Chargeback Ratio</td>
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<td>Desktop Services</td>
<td>Direct Cost using IT Standard Personal Computer and Device Rate</td>
<td>DPB</td>
<td>DPB</td>
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<td>IT Infrastructure &amp; Management</td>
<td>Information Technology</td>
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<td>MPD / Copier / Fax</td>
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<td>Telecom Client Projects</td>
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<td>DPB</td>
<td>DPB</td>
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<td>Infrastructure Capital</td>
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<td>DPB</td>
<td>DPB</td>
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<td>Telecommunications Infrastructure &amp; Maintenance</td>
<td>Headcount Ratio</td>
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<td>Wireless Services</td>
<td>Direct Cost using IT Standard Personal Computer and Device Rate</td>
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<td>DPB</td>
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<tr>
<td><strong>Investor Relations</strong></td>
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<td>Depreciation Expense</td>
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</table>

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<thead>
<tr>
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<th>Progress Energy</th>
<th>Progress Energy Carolinas</th>
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<td>NuStart Earnings</td>
<td>AR1</td>
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<td>Operating Lease</td>
<td>AR1</td>
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<td>Property Tax</td>
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<td>Service Company Tax Expense &amp; Tax Savings Initiative</td>
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<td>Service Company Employee Incentives</td>
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<td>Workers Compensation</td>
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<td>Nuclear Premium and Credit</td>
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</table>

**Supply Chain Management**

Supply Chain Management                                   AR1                       | X             | X                         |

**State Public Affairs and Economic Development**

Public Affairs                                           AR1                       | X             | X                         |

**Tax**

Payroll                                                  Headcount Ratio           | X             | X                         |

| Tax Services                                             | Direct Cost and 3F          | X             | X                         | X                       |

**Treasury and Enterprise Risk Management**

Analysis and Measurement                                  AR1                       | X             | X                         |

| Treasury Operations and                                  | Direct Cost and 3F          | X             | X                         | X                       |

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X: This affiliate receives direct and/or indirect charges for this product.
### B. Utility and Associate Companies

Services highlighted in gray are described in Section VI. B. Utility and Associate Company Clearing Accounts. Refer to Section VI.C. Utility and Associate Company Services and Descriptions for non-highlighted services.

<table>
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<th>Provider Company</th>
<th>Function</th>
<th>Product/Shared Service</th>
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