100001-EI

Progress Energy Florida, Inc.
Risk Management Plan for
Fuel Procurement and Wholesale Power Purchases
For 2011

As required by Order No. PSC-02-1484-FOF-EI in Docket No. 011605-EI, Progress Energy Florida, Inc. (PEF) is submitting its 2011 Risk Management Plan for review by the Florida Public Service Commission. The Risk Management Plan includes the required items as outlined in Attachment A of Order No. PSC-02-1484-FOF-EI and specifically items 1 through 9, and items 13 through 15 as set forth in Exhibit TFB-4 to the prefiled testimony of Todd F. Bohrmann of Docket No. 011605-EI.

Several groups play key roles in the management, monitoring and analyzing of the activities outlined in PEF's Risk Management Plan. These groups include Fuels and Power Optimization (FPO), Enterprise Risk Management (ERM) which includes Corporate Credit and Risk Analytics and Reporting, Back Office, Accounting, Regulatory Contracts and Fuel Accounting, Financial Services, Audit Services, Legal and IT Development and Support. The activities supported by these groups include procuring competitive priced fuel, performing active asset optimization and portfolio management, executing PEF's hedging strategy, monitoring and reporting against established oversight limits for credit, hedging and procurement, performing credit evaluations and monitoring credit and default exposure, performing deal validation, volume actualization, preparing and reviewing transactions and contracts, preparing journal entries to account for fuel and power related activities, performing billing and payments under the various fuel and purchased power contracts, performing audits, and maintaining and supporting needed systems.

PEF's current fuel burn and economy purchase and sales activity projections for 2011 based on the July 2010 Fuels and Operation Forecast are as follows:

Coal

Based on current projections, PEF is forecasted to burn approximately [redacted] tons of coal in 2011. PEF's forecasted coal requirements for 2011will be purchased primarily under term coal supply agreements. The coal supply will be delivered to PEF's plants via railroad and barge transportation agreements. Spot purchases will be made as needed.

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Heavy Oil
Based on current projections, PEF is forecasted to burn approximately [redacted] barrels of heavy oil in 2011. PEF's forecasted heavy oil requirements for 2010 will be purchased primarily under term supply agreements with flexible volume provisions at indexed market prices. Spot market purchases will be made as needed.

Light Oil
Based on current projections, PEF is forecasted to burn approximately [redacted] barrels of light oil in 2011. PEF's forecasted light fuel oil requirements for 2011 will be purchased under term supply agreements with flexible volume provisions at indexed market prices. Spot market purchases will be made as needed.

Natural Gas
Based on current projections, PEF is forecasted to burn approximately [redacted] of natural gas in 2011 that is comprised of approximately [redacted] at PEF's generating plants and [redacted] at gas tolling purchased power facilities where PEF has the responsibility to purchase the natural gas. Estimates of usage at gas tolling facilities are generated through the normal course of the production cost modeling process. A majority of PEF's forecasted natural gas requirements for 2011 will be purchased primarily under term supply agreements that are based on market index pricing. In addition, daily and monthly purchases of natural gas will be made as needed.

Economy Power Purchases and Sales
Based on current projections, PEF is forecasted to purchase approximately [redacted] of economy power and sell approximately [redacted] of economy power in 2011. PEF actively seeks to purchase and sell economy power and transmission as opportunities arise based on market prices, dispatch costs, and available transmission capacity.

Item 1. Identify the company's overall quantitative and qualitative Risk Management Plan Objectives.

PEF's overall Risk Management Plan Objectives for 2011 are to effectively manage its overall fuel and purchased power costs for its customers by engaging in competitive fuel procurement practices and activities, performing active asset optimization and portfolio management activities, and continuing to execute the company's hedging program which reduces the impacts of fuel price volatility.

Item 2. Identify the minimum quantity of fuel to be hedged for 2011 and the activities to be executed

Natural Gas:
PEF's hedging target ranges are [redacted] to [redacted] of its forecasted burns for calendar year 2011.The current expectation is for PEF to hedge approximately [redacted] of its forecasted natural gas burns for calendar year 2011. Hedging at the lower end of the range will allow PEF to monitor actual fuel burns, review updated fuel forecasts throughout the year and to make adjustments if needed to remain in the targeted range. The 2011 natural gas burn projections are estimates of natural gas burns at PEF's owned generation facilities and two gas tolling purchased power agreements where PEF has the responsibility for purchasing the natural gas for delivery to the facilities. The tolling power purchase facilities are Shady Hills and Vandolah. A gas tolling purchased power agreement is where the buyer has the right to all or a portion of the seller's generation resource at the facility via a contractual relationship. The natural gas volumes associated with tolling purchased power agreements are included in PEF's natural gas usage forecasts and the annual hedge targets for natural gas.

Light oil and Heavy Oil:
With respect to light oil forecasted to be burned at PEF's owned generation facilities for calendar year 2011, PEF will target to hedge a minimum of [redacted] of its forecasted light oil burns. With respect to heavy oil forecasted to be burned at PEF's owned generation facilities, PEF hedging targets are [redacted] to [redacted] of its forecasted burns for calendar year 2011. The current expectation is for PEF to hedge a minimum of [redacted] of its forecasted heavy oil burns for calendar year 2011. PEF is targeting to hedge a lower minimum percentage of forecasted light oil and heavy oil as light oil and heavy oil fuel burns can experience greater percentage deviations due to, but not limited to, economics, weather and load deviations, and purchase power opportunities. PEF will monitor actual light and heavy oil burns, review updated fuel forecasts throughout the year and make adjustments if needed to remain in the targeted range.

Coal rail and river transportation fuel surcharges:
With respect to coal river and rail transportation estimated fuel surcharges, for calendar year 2011, PEF will target to hedge between [redacted] to [redacted] of the estimated fuel surcharge exposure based on contractual provisions in the coal rail and river barge transportation agreements.

The target annual hedge percentage ranges are outlined in the Progress Energy Florida Fuels and Power Optimization Risk Management Guidelines, which are reviewed at least annually to ensure the Guidelines meet the Company's objectives, provide the needed oversight and independent checks and controls, meet the intent of the Hedging Order, and are appropriate based on on-going market conditions. The hedging program continues to be well managed and independently monitored and does not involve speculation or trying to "out guess" the market. As outlined above, PEF has outlined annual calendar target hedge percentages based on current fuel forecasts. The annual calendar hedging targets for each of the respective periods in the Risk Guidelines provide the basis for executing the company's long-term strategy of layering in fixed price transactions over time for a portion of forecasted annual fuel burns. This allows PEF to monitor periodic fuel forecast updates and to move from one calendar period to another more effectively. The volumes that are hedged over time are based on periodic updated fuel forecasts. Actual hedge percentages for any monthly period, rolling twelve month time period or calendar annual period can come in higher or lower than the target hedge percentage targets as a result of actual versus forecasted fuel burns. Actual burns can deviate from forecasted burns as a result of several dynamic variables such as weather extremes and variations, unforeseen unit outages, actual load and changing fuel prices.

As PEF moves through the remainder of 2010 and into 2011, PEF will monitor its fuel forecast and expects to continue to execute additional hedges to manage to the hedge percentage targets by periodically entering into approved fixed price physical and financial transactions for a portion of its projected 2011 burns. In addition, as outlined in PEF's FPO Risk Management Guidelines and consistent with its previous hedging activities, PEF expects to continue to execute financial hedges over time within a 36 month rolling time period. This hedging approach is consistent with PEF's existing strategy and allows PEF to continue to monitor the market and fuel forecast updates. The results of the hedging activities may or may not result in net fuel cost savings due to differences between the monthly settlement prices and the actual hedge price of the transactions that were executed over time. All hedges are executed at the prevailing market price for any given period that exists at the time the hedging transactions are executed.

The annual hedge targets for each of the respective periods are included in PEF's FPO Risk Management Guidelines in Attachment A.

Item 3. <u>Identify and quantify each risk, general and specific, that the utility may encounter with its fuel procurement.</u>

PEF has identified specific and general risks associated with the procurement of fuels and power optimization activities. The specific risks include fuel price risk, supplier performance and default risk, liquidity risk, credit risk, product availability risk, and changes in forecasted volumes. The general risks include unforeseen extended plant outages, weather related events such as hurricanes, extreme weather variations from forecast, and business continuity. Described below are the specific and general risks that PEF is exposed to and the activities that PEF undertakes to reduce the overall exposure to these known risks. In addition, the processes that PEF has in place to monitor and quantify these risks are also described.

Price Risk

PEF's customers are exposed to the risk of fuel price volatility which could result in significant variability in fuel costs. For natural gas, heavy oil and light oil, the physical fuel is procured under standard industry contracts that are based on published market index pricing that exists at the time the fuel is delivered. The published market index prices paid by PEF for these fuels will fluctuate with daily changes in market prices until the respective first of the month market index or daily-published market index price settles and the product is delivered. For coal, PEF executes standard industry supply agreements to fix and/or collar the price of the underlying coal. Absent hedging as defined by Order No. PSC-02-1484-FOF-EI (the Hedging Order), Order No. PSC-09-0349-10-EI in Docket 080649-E1 and fixed price coal supply contracts, the projected costs for coal, natural gas, heavy oil, and light oil fuel purchases could vary significantly due to volatile market prices over time.

PEF manages and reduces fuel price volatility for its forecasted natural gas and fuel oil burns by executing standard industry fixed price physical and financial swap and option agreements over time for a portion of its forecasted annual burns. As outlined above, PEF enters into standard industry coal supply agreements to fix the price of the underlying commodity exposure. As a result of these actions, PEF reduces its overall exposure to volatile fuel prices for its customers.

With respect to monitoring and quantifying price risk, Enterprise Risk Management (ERM) independently monitors and reports on the percentage of projected fuel burns that have been hedged and purchased under physical and financial agreements as compared to the established annual hedge and procurement targets for each respective product and period. In addition, the Company performs periodic fuel and purchased power cost forecasts, which incorporate any updates needed for financial and physical hedge positions, commodity prices, unit maintenance schedules, load forecasts, and other operating parameters. The updated fuel and purchased power forecasts are point in time estimates and are summarized and published to ensure there is a regular review of projected fuel and purchased power costs. Lastly, as needed, ERM performs standard statistical stress tests, portfolio analysis, and Value at Risk calculations to determine potential impacts of changing and volatile prices.

Supplier Performance and Default Risk

Supplier performance and default risk represent the risk of financial loss and/or supply loss that PEF could incur if a supplier defaults on a physical or financial obligation and is not able to fulfill the terms of an agreement. The estimated aggregate dollar amount of supplier performance and default risk for the portfolio is based on the volume, duration and price of the agreements as compared to the current estimated market value of the agreements.

PEF reduces supplier performance risk by conducting business with a number of approved suppliers, executing agreements within contract approval limits and credit parameter limits, monitoring delivery performance of suppliers and, if possible, incorporating contractual provisions that allow for non-performance remedies in the case of default. In addition, PEF maintains on-site inventories for coal, heavy oil and light oil to further reduce this risk. For activities associated with hedging under financial agreements, the Credit function within ERM monitors all open positions and reviews the estimated market exposure for each third party company on a daily basis to ensure that PEF has the appropriate collateral balances as compared to contractual thresholds.

With respect to monitoring and quantifying the level of supplier performance and default risk in fuel agreements, ERM independently calculates, monitors and reports on the amount of default risk associated with coal, natural gas and fuel oil financial and physical agreements. The review is based on contractual volumes, duration and prices as compared to the current estimated value of the open positions in the agreements that have yet to be delivered or financially settled. See Attachment B for PEF's estimated Portfolio Default Exposure Report as of July 7, 2010.

Liquidity Risk

Liquidity risk represents the risk that PEF could not meet the collateral requirements generated from fuel hedging agreements if fuel prices fall substantially. As discussed above, PEF manages and reduces fuel price risk for its forecasted natural gas and fuel oil burns by executing standard industry fixed price physical and financial swap and option agreements. To manage default risk, most of these agreements contain provisions that require the posting of collateral if contractual thresholds are surpassed. The collateral requirements of the portfolio are based on the volume, duration, prices, and collateral threshold levels of the agreements as compared to the current estimated market value of the agreements.

PEF manages and reduces liquidity risk by conducting business with a number of approved suppliers to maximize the collateral threshold levels in individual agreements. In addition, PEF uses a mix of hedging instruments that do not all have the same impact on collateral requirements such as non-marginable hedging transactions that do not require the posting of margin. For activities associated with hedging under financial agreements, the Credit function within ERM monitors all open positions and reviews the estimated market exposure for each third party company on a daily basis to ensure that PEF only posts the appropriate collateral balances as compared to contractual thresholds.

With respect to monitoring and quantifying the level of liquidity risk in fuel agreements, ERM independently calculates, monitors and reports on the amount of liquidity risk associated with coal, natural gas and fuel oil financial and physical agreements. The review is based on contractual volumes, duration and prices as compared to the current estimated value of the open positions in the agreements that have yet to be delivered or financially settled. ERM performs standard statistical stress tests, portfolio analysis and Value at Risk calculations to determine potential impacts on liquidity risk of changing and volatile commodity prices on marginable positions.

PEF continues to monitor the activities associated with proposed financial regulation and the potential impacts it could have on its hedging transactions. The regulation proposals could cause changes to the Over the Counter (OTC) derivatives which could affect counterparties who trade financial products and engage in market making activities. One of the proposed changes that could impact certain market participants is a requirement to clear OTC derivatives through a central clearinghouse or exchange. This requirement could raise the incremental cost of hedging activities as it may require these counterparties to post additional margin and maintenance margin for OTC derivatives which would be expected to increase the liquidity requirements needed to support these activities. As of now, PEF believes it will be exempt from this requirement as its hedging activities are not speculative in nature. Currently, PEF has credit collateral thresholds in place with its counterparties that do not require the posting of collateral unless the market value of its hedges drops below the negotiated threshold dollar value. Additionally, PEF has negotiated several bi-lateral non-margin hedging agreements with counterparties where margin posting is not required on certain transactions. Assuming PEF is considered exempt from mandatory clearing of OTC derivatives and more stringent collateral requirements under the proposed regulation, PEF may be subject to higher incremental costs for hedging transactions. If some of PEF's counterparties are subject to higher liquidity requirements due to the proposed regulation, PEF could be subject to higher incremental costs for hedging transactions in the form of 1) potential increases in bid / offer spreads on market hedge transactions, 2) potential reduction by certain counterparties in the use of non marginable OTC transactions and 3) potential reduction in the number of counterparties who will be available for hedging transactions with PEF.

Credit Risk

On a daily basis, PEF's Credit function within ERM calculates, monitors, and reports on the Company's overall credit risk. The Credit function utilizes standard industry credit evaluation practices and has specific criteria that are used to measure credit risk and ensure counterparties' credit is monitored and reviewed. The Credit function monitors all positions and reviews the mark-to-market exposure for each third party company to ensure that based on the current market value of open hedge positions and the credit quality of the third party companies the appropriate level of collateral is posted or received as compared to the contractually established threshold. PEF has not experienced any credit losses with respect to hedging activity.

With respect to financial transactions, prior to executing any financial transaction with a third party company, two activities take place. First, PEF and the third party company must have an International Swap Dealer Agreement (ISDA) in place. The ISDA is a standard industry contract that is used by industry participants to enter into Over the Counter bi-lateral transactions (OTC transactions). All ISDA agreements are negotiated by the Legal group and reviewed as deemed appropriate, by Credit, FPO and Accounting to ensure the appropriate terms and conditions are included. As part of the process of setting up a new financial agreement, a credit evaluation is performed on the third party company by the Credit function. There are universal principles of credit strength that are evaluated before credit is granted. Among these principles are company size, industry characteristics and trends, profitability, liquidity, cash flow, interest and fixed charge coverage and capital structure. In addition, both external and internal evaluation models are used to evaluate third party companies' credit. PEF evaluates counterparties using a consistent analytical approach and the credit ratings are based on both external ratings and the evaluation of key counterparty attributes identified as leading indicators for financial performance. The credit rating process includes obtaining counterparty background information, identifying any existing Standard & Poor's (S&P) and/or Moody's ratings for the counterparty, and performing a financial statement analysis. The financial statement analysis includes, but is not limited to, a review of revenue trends, metric calculations and trends evaluation for Free Funds from Operations, Total Debt to Tangible Net Worth, Funded Debt to Capital, Interest Coverage, Operating Cash Flow and Liquidity. If the counterparty is a bank, the Tier I, Tier II and Total Capital Ratios are either researched or calculated and compared to Basel I and most recently Basel II minimums because capital adequacy and liquidity are of paramount importance to the Company's counterparty credit analysis. Banks are also subjected to the calculation of various capital stress ratios. These ratios help identify those institutions who are most likely to have significant financial difficulty with regard to their non-performing assets and problem loans. In addition, company financial information is entered into the

Company's proprietary credit model, which generates a score that helps validate existing agency ratings and provides a means to determine if any necessary internal rating adjustments are needed. Once the credit evaluation is complete, a credit rating is assigned to the third party company and, if appropriate, a credit line is extended. The assigned credit rating and credit limit dictate the size and duration of financial hedging transactions that PEF can enter into with a third party company.

There are additional steps that the Credit function may take during times of economic uncertainty and market events such as those that occurred during the financial crisis of late 2008 and 2009. For example, during the financial crisis, the financial counterparties that were categorized as banks were monitored by the Credit function on a more frequent basis. During this time the banks were monitored as frequently as intraday and are currently being monitored on a quarterly basis. The monitoring activities are comprised of a financial evaluation which includes bank industry, non-performing loan metrics, a review of third party agency ratings and a review of recent news about the company.

As described, on a daily basis the Credit function independently monitors, calculates and reports on collateral exposure. In addition, with respect to monitoring agreements that require the posting of margin based on established contractual thresholds, the company may ask for margin or send out margin to the third party company to ensure exposures are within established contractual thresholds. See Attachment C for the PEF collateral report as of July 1, 2010.

Product Availability and Changes in Forecasted Volumes

PEF must have access to needed physical fuel supplies, adequate product delivery capabilities and inventory to meet projected fuel requirements. Without access to needed fuel supply and inventory, PEF is exposed to the risk of not being able to economically and reliably dispatch the generation fleet.

PEF manages and reduces this risk by entering into standard industry physical supply contracts as well as needed pipeline, railroad, barge and trucking agreements for the purchase and delivery of coal, natural gas, heavy oil and light oil provide the supply and flexibility to meet projected burns. In addition, PEF maintains on-site inventory for coal, heavy oil and light oil to provide fuel supplies to support on-going operations and ensure supplies are available for unexpected delivery delays, storm curtailments, and events that could affect fuel supply availability. PEF holds off-site high deliverability natural gas storage capacity that provides additional access for a portion of its natural gas needs when natural gas supplies are curtailed. In addition, PEF's has access to additional onshore gas supplies via contractual volumes delivered on Southeast Supply Header, the Transco Mobile Bay South Lateral and long-term purchase for LNG volumes that are delivered out of Elba Island and into Florida via the Cypress Pipeline. PEF actively monitors actual fuel burns, forecasted fuel burns and fuel inventory levels. Based on these reviews, PEF may make procurement adjustments and hedging adjustments to manage the amount and delivery timing of contracted supplies as a result of actual burns, changes to forecasted fuel burns and inventory levels that can be caused by economic factors, weather deviations, fuel-switching trends and opportunities, plant outages, and purchased power opportunities.

With respect to monitoring and quantifying the level of risk associated with ensuring adequate fuel supply, ERM independently monitors and reports on the amount of fuel procured versus projected burns. In addition, the front office performs analysis and produces reports that quantify the amount of fuel needed to support projected burns and inventory needs. Lastly, the Company performs periodic forecast for fuel burns and purchased power and produces summary reports for review and monitoring of projected fuel burns.

General Risks

PEF is subject to unforeseen and extended plant outages that could occur during peak demand periods. To manage this potential risk, PEF maintains the required capacity reserve margins, maintains demand side load management protocols and has experienced personnel that engage the market as needed to buy power. Secondly, PEF is subject to weather events and hurricanes. As detailed above, PEF reduces the overall risks associated with weather events, storms and other potential fuel delivery curtailments and delays by maintaining on-site inventories and off-site inventories and continuing to diversify its natural gas supply to more secure onshore locations as the Company's overall gas generation has grown. PEF is subject to events that could require FPO employees to perform required work functions at locations other than their normal work location. With respect to this risk, the FPO Department has business continuity plans in place that are reviewed and tested periodically to address this risk.

Item 4. Describe the company's oversight of its fuel procurement activities.

The Board of Directors of the Company has established a Risk Management Policy that directs the Risk Management Committee (RMC) to oversee Progress Energy's financial risks. The RMC is comprised of senior executives from varying functional areas. The RMC is responsible for administering necessary risk management guidelines and policies, and monitoring compliance with these guidelines and policies. In addition, the RMC is responsible for identifying and monitoring corporate financial risks, recommending aggregate market and credit risk allocations as needed for

Board of Directors approval, approving risk management guidelines and controls, approving trading products, reviewing credit exposures, and reviewing fuel hedging and procurement activities.

PEF has included the Company's Risk Management Policy and the Company's Risk Management Committee Guidelines as Attachments D and E.

With respect to day-to-day independent oversight and controls for the FPO activities, the company uses the "three-office" structure which includes FPO (Front Office), ERM (Middle Office) and Accounting (Back Office) to provide the necessary independent oversight and monitoring of its fuel procurement, power optimization and hedging activities.

The "three-office" structure is an accepted industry practice with the Front Office, Middle Office, and Back Office each functioning as independent departments, which ensures the required segregation of duties and the existence of independent oversight and controls over key activities. In addition, the Legal organization provides critical contractual support to ensure that the Front Office contracts are reviewed and contain legal provisions to reduce risks that could affect the Company. In addition, the IT Enterprise Application Solution Support organization provides on-going support related to trading system operations and functioning. Treasury and Disbursement Services provide appropriate support when disbursing funds to counterparties via checks, wires or automated clearinghouse payments. All of these support organizations are independent from the Front Office.

<u>Front Office</u>
PEF has a structured procurement process where Requests for Proposals are issued periodically to procure needed competitive fuel supply. As noted above, the fuel procurement activity is supported by the Legal function. Front Office management is responsible for ensuring employees are authorized before they are allowed to trade commodities on the Company's behalf. In addition, there is a corporate approval matrix, which provides the required approvals for fuel related procurement activity based on estimated costs and duration of fuel related contracts. PEF has included the Risk Management Guidelines and Credit Risk Management Guidelines in Attachments A and F.

<u>Middle Office</u>
ERM monitors Front Office activity by quantifying, monitoring, and reporting risks associated with fuel procurement, power optimization and hedging activities. ERM is accountable to the enterprise for independent oversight, measurement, and reporting of Front Office activities to management. ERM monitors and reports on Front Office activities and will report immediately any non-compliance as required within the reporting and control limit structures as defined by the Risk Management Guidelines. Lastly, ERM publishes credit

limit and exposure reports to ensure that counterparty credit limits are monitored and adhered to and administers margin activity as required under agreements with counterparties to reduce credit and default risk.

Back Office

Accounting is also independent from Front Office and performs the following control functions, among other things, on a daily, weekly or monthly basis: deal validation, transaction confirmations, close accounting, general ledger balance sheet account reconciliations, settlements/cash transfers, processing payments/receipts, accounting for hedging activities and derivatives, and performing certain compliance activities as defined and/or required by various regulatory agencies (e.g. Securities and Exchange Commission, Financial Accounting Standards Board, Federal Energy Regulatory Commission, Public Service Commission). Related to accounting for hedging activities and derivatives, Progress Energy's FAS No. 133 policy is followed. This policy is reviewed and updated at least annually.

Item 5. Verify that the utility provides its fuel procurement activities with independent and unavoidable oversight.

As described in Item 4, the Company has a robust independent oversight culture with processes in place to ensure the identification, monitoring, and reporting of risks accompanying independent controls for monitoring and reporting on fuel procurement, power optimization, and hedging activities. The key components of the oversight functions and processes are described below.

RMC

The Company's Board of Directors has established a Risk Management Policy that directs the RMC to oversee PEF's financial risks. The RMC members are as follows:

- Chairman, President & Chief Executive Officer of Progress Energy
- SVP & Chief Financial Officer – Progress Energy (Chair)
- President & Chief Executive Officer – Progress Energy Carolinas
- EVP - General Counsel & Corporate Secretary – Progress Energy
- SVP - Power Operations
- VP- Legal
- VP- Treasurer and Chief Risk Officer

The RMC assesses and monitors financial risks. This includes reviews of hedging and fuel procurement as well as market and credit risk exposures. In addition, the RMC approves the Risk Management and Credit Risk Management Guidelines including approval for any new products and strategies.

ERM

The Company has an independent ERM section, which is overseen by the Director of ERM who reports to the Treasurer and CRO. The ERM group is comprised of a Corporate Credit function section and a Risk Analytics and Reporting function. ERM's credit function provides independent credit evaluation of trading and procurement counterparties, performs credit reviews of the company's suppliers and customers, and assists in drafting and reviewing credit language in various agreements, and monitors and reports on credit exposures daily. ERM's Risk Analytics and Reporting function independently reports on fuel procurement and hedging activities and performs independent analysis as required. ERM independently prepares credit and risk summary reports, validates positions, performs mark-to-market calculations, administers margin activity with counterparties, and performs independent reviews of company activities as required.

Guidelines

As part of the overall risk management structure and oversight process at the company, the Risk Management Guidelines and Credit Risk Management Guidelines have been established and are reviewed, updated and approved by the RMC at least annually.

PEF's Risk Management Guidelines provide the methods to assess, quantify, report, and monitor the activities associated with fuel procurement contracts, fuel hedging activities, and power activities. In addition, these Guidelines outline approved products, approved periods, and risk parameters such as reporting and control limits for margin capital, credit exposure, Value at Risk (VAR), and annual hedging targets. PEF's Credit Risk Management Guidelines provide the methodology to evaluate, measure, mitigate, and report credit associated with FPO activities. In addition, the Credit Risk Management Guidelines outline specific contract duration criteria for counterparties based on standard industry credit metrics and methods.

Audit Services

Audit Services provides independent assurance and consulting services that ensure compliance, effective corporate governance, adherence to established procedures and operational effectiveness for all major areas of the Company. With respect to FPO activities, Audit Services performs periodic audits that focus on items such as compliance with established procedures, off premise activity, payment terms under fuel contracts and other trading and procurement activities.

Item 6. Describe the utility's corporate risk policy regarding fuel procurement activities.

The utility risk policy requires the oversight of the Company's business and financial risks. As described in detail in item 4 the company has developed management oversight functions and processes, specific guidelines, approval processes and procedures that must be followed with respect to fuel procurement, power optimization and hedging activities.

Item 7. Verify that the utility's corporate risk policy clearly delineates individual and group transaction limits and authorizations for all fuel procurement and hedging activities.

The utility has guidelines and procedures in place that outline individual and group limits and authorizations for procurement, hedging activities and portfolio management activities. These guidelines and procedures are outlined in detail in responses to items 4 and 5. A summary of the applicable procedures are attached as part of the response to item nine.

Item 8. Describe the utility's strategy to fulfill its risk management objectives.

The Company's strategy to fulfill its risk management objectives is executed by having a well-defined fuel procurement and hedging approach and an active daily and real time market engagement, and portfolio management activities. In addition, the Company has an established hedging program governed by independent controls, appropriate organizational design and oversight, deal approval requirements, credit and risk management guidelines, and documented procedures.

One of the components of PEF's Risk Management Plan is to procure fuel in a competitive manner and to hedge prices for a portion of forecasted burns over time. Examples of executing these components of the program include periodic Request for Proposals issued by PEF to solicit competitive bids for coal, natural gas and fuel oil supply, and the execution of fixed price natural gas and fuel oil agreements to lock in prices for a portion the Company's forecasted burns over time. In addition, the Power Trading Unit and the Portfolio Management Unit actively monitor the dispatch of the generation fleet and actively seek opportunities to execute economic purchases and sales.

In addition to the commercial activities being performed to fulfill the objectives of the Risk Management Plan, for the plan to be deemed successful, the activities must be governed by independent oversight, segregation of duties and effective guidelines, procedures and internal controls. The Company has established controls, guidelines, procedures and organizations to support and independently monitor fuel procurement, hedging and power optimization activities.

The Risk Management Plan is executed through the efforts of experienced professionals who ensure the program's activity is conducted and executed in a manner consistent with the Company's overall strategy, guidelines and business practices. As noted in items 4 and 5, the Company has a robust oversight culture and processes that includes oversight by the RMC, periodic audits by Audit Services, and independent reporting and credit monitoring by ERM to ensure adherence to established guidelines and procedures.

Item 9. <u>Verify that the utility has sufficient policies and procedures to implement its strategy.</u>

PEF maintains sufficient guidelines and procedures to implement its strategy. Please see Attachment G for a summary listing of the applicable guidelines and procedures.

Item 13. <u>Describe the utilities reporting system for fuel procurement activities.</u>

The Company utilizes multiple systems and applications to track, record, account, and report on executed fuel procurement transactions. Descriptions of the primary systems, software and other tools are provided below.

Forecasted fuel burns are prepared by the Company using a production cost simulation model called GenTrader. Fuel and other commodity price forecasts, load forecasts, purchased power deal information, generating unit operating characteristics, maintenance schedules, and other pertinent data are input into GenTrader which then simulates the system and computes a projected fuel burn requirement.

Zai*Net is a software application used by the Company to capture natural gas physical procurement transactions as well as financial natural gas, heavy oil and light oil transactions. In addition to deal capture, Zai*Net is used for deal valuation, position management, mark-to-market calculations and settlements. Zai*Net is integrated with the Gas Management System (GMS) which is a natural gas scheduling tool used to match supply and deliveries. Once volumes are updated in GMS with actual volumes, there is a process that systematically updates the physical deals in Zai*Net.

The GMS is a software application used by the company to match supply, transport and deliveries for natural gas purchases, sales and transport activity and the administration of associated contracts. The system is integrated with Zai*Net as outlined above, which provides for greater efficiency and controls for gas related activities.

Fuelworx is a software application used by the company to capture and track physical procurement activity for coal and fuel oil. The system assists with administering contract terms and conditions, maintaining inventory levels, capturing fuel consumption information, and issuing monthly closeout processes, including invoicing, and settlements.

Front Office, ERM and Accounting utilize other programs such as Business Objects and Excel to summarize, evaluate and report on fuel procurement transactions, and counterparty credit evaluations. In addition, ERM maintains an Oracle database that stores market prices for various commodities and locations. Lastly, ERM's Analytics group utilizes Matlab, a computer programming language, to calculate VAR and run other scenarios as needed by the business units.

Lastly, the Company has agreements with vendors to provide real time pricing feeds to monitor real-time natural gas, fuel oil and power market prices.

Item 14. <u>Verify the utility's reporting system and other tools consistently and comprehensively identifies, measures and monitors all forms of risk associated with fuel procurement activities.</u>

As outlined in the response to item 13, the Company utilizes several applications to ensure procurement and hedging activities are captured, measured, monitored, confirmed, accounted for and reported. The company uses standard industry reporting templates, valuation techniques and applications. The current applications utilized by the company provide the necessary functionality for capturing deals, summarizing fuel positions, calculating mark-to-market valuations, calculating credit and collateral exposures, generating confirmations, supporting billing and payment requirements, and maintaining needed historical information such as prices and trade data.

Item 15. <u>If the utility has current limitations in implementing certain hedging techniques that would provide a net benefit to ratepayers, provide the details of a plan detailing the resources, policies, and procedures for acquiring the ability to use effectively the hedging techniques.</u>

PEF does not believe that there are any current limitations to effectively execute its hedging strategy.

Attachment A

REDACTED

PEF Fuels & Power Optimization Risk Management Guidelines

(ERM-SUBS-00015)

(25 pages)

Attachment B

REDACTED

Regulated Fuels Hedging Portfolio
Total Default Exposure (MtM) by commodity

As of: 7/7/2010

Progress Energy Florida, Inc.
$ in millions

Commodity	
Gas[A]	[redacted]
Fixed Price Physical	
Fixed Swaps	
Financial Options	
Oil[B]	
Fixed Swaps No.6	
Financial Options No.6	
Fixed Swaps No.2	
Financial Options No.2	
Coal[D]	
Fixed Priced	
Collar Priced	
Market Priced	
Ammonia[E]	
PEF Total	

Notes
[redacted]

Attachment C

REDACTED

PEF Collateral Summary

(1 page)

Attachment D

Risk Management Policy

Overview

The Risk Management Policy applies to Progress Energy and its affiliates (the Company).

For the purpose of this policy, risk is defined as exposure to unfavorable changes in company cash flows resulting from business outcomes differing from corporate objectives. The Company recognizes that there is in each of its businesses a financial risk profile. It is the general philosophy of the Company that management is expected to identify such risks and take appropriate steps to mitigate and manage these risks.

Risk management is the process of identifying and measuring risks, and developing and implementing strategies based on the company's risk tolerances. While line management is ultimately accountable and responsible for risk management, the Company has established a Risk Management Committee to provide guidance and direction in the identification and management of risk.

Risk Management Committee

The Risk Management Committee (RMC) oversees the company's financial risk management. The RMC is comprised of the Chief Financial Officer (CFO) and other senior executives. The CFO acts as the chair of the RMC and may act on its behalf to expedite matters of urgency.

The RMC is responsible for:

- Identifying, assessing, and monitoring corporate financial risks
- Recommending aggregate market and credit risk allocations for Board of Director approval
- Approving risk management guidelines and controls, risk analytics and risk management products
- Reviewing general business conditions, market and credit risk exposures, and broad strategies and performance reports
- Reporting policy and guideline compliance and summary risk exposures to the CEO, Board of Directors and Finance Committee on a regular basis.

The CEO is ultimately responsible for the company's management of risk.

Risk Management Tools

The three tools used to control financial risk are contractual terms, insurance and derivatives. Terms in contracts with suppliers and customers should adequately address financial risks and follow the approval process in various company areas. The use of insurance to control company risks should be coordinated through the Treasurer of Progress Energy.

The use of derivatives is more complex and embodies risks not typically found in contractual and insurance risk management tools. Derivatives are financial contracts which derive their value from the price and other properties of an underlying commodity or financial instrument. For instance, derivatives such as forwards, futures, options and swaps can be used to make prices fixed or floating, or with price caps or floors.

Providing the use of derivatives falls within the guidelines and controls approved by the Risk Management Committee, derivatives may be used to:

- Provide alternative pricing structures for raw materials (such as fuels) purchased for use in business activities
- Provide alternative pricing structures for electricity and fuel sales or purchases
- Provide electricity and fuel supply flexibility (e.g. the use of options and futures)
- Adjust, as necessary, prices from floating to fixed or from fixed to floating
- Lock-in costs for projected financing transactions
- Provide the ability to call bonds and preferred stock through the use of embedded options
- Lock-in common share prices for share repurchases or acquisitions.

With the exception of derivatives authorized for trading purposes by the Risk Management Committee, derivatives should be used to produce a measurable offset to price risk related to business activities. The use of derivatives for trading should be monitored by the RMC and strictly controlled through the use of trading limits and adequate operational controls.

Attachment E

REDACTED

Risk Management Committee Guidelines

(4 pages)

Attachment F

REDACTED

Fuels and Power Optimization Credit Risk Management Guidelines

(12 pages)

Attachment G

Progress Energy Florida Guidelines and Procedures

Document Number	Document Title	Document Summary
ACT-SUBS-00002	Progress Energy Corporate Approval Level Policy	The Approval Level Policy governs the approval levels of Progress Energy, Inc. regulated legal entities that utilize the services of the Disbursement Services Unit in the Progress Energy Service Company, LLC (SVCO).
ACT-SUBS-000318	New Product Approval Process	A core function of a trading and marketing operation is the development of new products.
ACT-SUBS-00080	Commodity Index Price Reporting	The purpose of this procedure is to help ensure that accurate data for physical natural gas commodity trades completed by the Fuels & Power Optimization department is reported to approved index price publications for inclusion in their daily market survey.
ADM-FPOX-00004	Replenishment Process	This document covers the activities necessary to ensure that, Inventory levels are monitored to determine if coal purchases are necessary. However, business or operational considerations may not require. Monthly coal shipments are scheduled to Plants to support burn requirements and inventory .
ADM-SUBS-00046	Fuelworx User Access & Security	This procedure outlines the process required to obtain access to the Fuelworx system.
EMG-PGNF-00002	Fuel Oil Emergency Procedure - PEF	This procedure outlines the process required when a fuel oil emergency occurs.
ERM-FPOF-00003	Fuels and Power Optimization Florida Standard Credit Analysis and Rating Procedure	This procedure defines the universal principles of credit strength that should be evaluated before credit is granted.
ERM-FPOF-00004	Fuels and Power Optimization Florida Credit Line Violation Procedure	Credit violations occur when credit exposure exceeds defined counterparty credit limits, and transactions are executed which exceed defined maturity limits.
ERM-FPOF-00005	Fuels and Power Optimization Florida Credit Exposure and Risk Measurement Procedure	Credit exposure and risk is measured to determine and assess compliance with defined counterparty corporate credit limits and to evaluate the stability of the credit portfolio.
ERM-FPOF-00006	Fuels and Power Optimization Florida Credit Mitigation Tool Procedure	Credit mitigation is a process whereby credit enhancements are obtained to reduce or transfer counterparty credit exposure.
ERM-FPOF-00007	Fuels and Power Optimization Florida Credit reporting procedure	Credit risk management reporting is a mechanism used to monitor and communicate credit risk exposures to Fuels and Power Optimization Florida commercial operations (PEF FPO) management, Treasury - Enterprise Risk Management (ERM) and the Risk Management Committee.
ERM-FPOF-00009	Fuels and Power Optimization Florida Credit Review Procedure	Credit reviews are conducted by Corporate Credit to affirm existing external and Progress Energy (PE) equivalent ratings and corresponding credit lines.
ERM-FPOF-00013	Fuels and Power Optimization Florida Enhanced Credit Analysis Procedure	This procedure defines the universal principles of credit strength that should be evaluated before credit is granted.
ERM-FPOF-00014	Fuels and Power Optimization Florida Credit Line Exception Procedure	Credit exceptions are initiated when PEF FPO personnel desires credit in excess of maximum credit lines and/or maximum maturities. Exceptions may also be requested to obtain credit for counterparties who do not meet defined credit criteria.
ERM-FPOF-00015	Fuels and Power Optimization ICE Management Procedures	IntercontinentalExchange ("ICE") is an electronic trading platform for energy trading and price discovery.
ERM-FPOF-00017	Fuels and Power Optimization Florida Credit Request Procedure	This procedure defines the credit request procedure
ERM-FPOF-00018	Fuels and Power Optimization Florida Default Exposure and Risk Measurement Procedure	This procedure defines how the default exposure and risk is measured to determine the operation risks that could result from counterparties defaulting on an "in-the-money" contract.
ERM-FPOF-00019	Fuels and Power Optimization Florida Corporate Credit Non-Standard Credit Analysis and Rating Procedure	There are companies that fall outside the energy industry or do not have the same financial information as standard energy trading companies that must be evaluated before credit is granted. To that end, credit analysis should follow the generally accepted financial ratio analysis methods for determining creditworthiness.
ERM-SUBS-00015	PEF Fuels & Power Optimization Risk Management Guidelines	The objective of these guidelines is to provide a methodology to assess, report and mitigate the applicable risks as referenced and identified in the Risk Management Committee guidelines.
ERM-SUBS-00020	Fuels and Power Optimization Credit Risk Management Guidelines	The objective of these guidelines is to provide a methodology to evaluate, measure, mitigate, and report credit risk associated with trading, marketing, and procurement activities.
MCP-FPOX-00005	Coal Procurement Procedures	To describe the coal purchasing process.
MKT-FPOF-00045	FPO Long-Term Firm Transportation Capacity Process - Florida	This procedure defines the process by which the Long Term Gas Representative purchases long-term firm transportation capacity for PEF for a term of one year or greater.
MKT-FPOF-00052	FPO - PEF Short-Term Gas Procurement Process	To ensure that appropriate volumes of competitively priced natural gas supply/transport are available for native load gas-fired generation in order to meet peaking and baseload gas forecasts.
MKT-FPOF-00057	FPO - PEF Short-Term Transportation Capacity Process	This procedure defines the process by which the Gas Trader purchases short-term capacity on a seasonal and monthly basis.
MKT-FPOF-00058	FPO - PEF Term Gas Supply and Transportation Policy	The objective is to ensure that Progress Energy Florida (PEF) has a reliable and competitively-priced long-term (terms greater than one year) natural gas portfolio to meet forecasted native load demand and environmental commitments for generation units.

Attachment G

Progress Energy Florida Guidelines and Procedures

Document Number	Document Title	Document Summary
MKT-FPOF-00073	FPO - PEF Long-Term Gas Supply Process	This procedure defines the process for physical gas supply purchases (greater than one-year term) for PEF generation systems.
MKT-FPOF-00081	FPO - PEF Short-Term Gas RFP Process	Gas Trading procures gas supplies on a short-term basis (current year plus four years) for PEF generation systems. The term and volume of the purchase commitments will be determined by the Short-Term Gas Procurement process for the upcoming years.
MKT-FPOF-00087	FPO - PEF Long-Term Oil Procurement & RFP Process	To ensure that appropriate volumes of competitively priced fuel oil and transportation are available for Progress Energy Florida (PEF) native load oil-fired generation in order to meet peaking and baseload fuel oil requirements.
MKT-FPOF-00088	FPO - Spot Market PEF Oil Procurement Process	To ensure that appropriate volumes of competitively priced fuel oil are available for Progress Energy Florida (PEF) native load oil-fired generation in order to meet peaking and base load fuel oil requirements. The purpose of this Short Term Oil Procurement Process is to describe the process to acquire fuel oil in addition to what is available under long term contracts.
MKT-FPOX-00016	FPO Power Trading Deal Confirmation Procedure	This procedure outlines the confirmation requirements for power transactions consummated on a recorded telephone line or recorded instant messenger window. This procedure is designed to complement, but not replace the FPO Energy Trade Ticket Process and the Power Real Time Trading Process.
MKT-FPOX-00023	FPO Trader Authorization and Removal Procedure	The Trader Authorization form has been developed to ensure that Gas, Oil and Power Traders understand their authorized trading boundaries.
MKT-FPOX-00024	FPO Simultaneous Power Purchase and Sale Procedure	This procedure describes the appropriate use of Network Transmission Service. It specifically addresses appropriate trading activity during periods when Progress Energy is importing purchased energy and exporting energy through opportunity sales.
MKT-FPOX-00025	FPO Designation of Network Resources Procedure	This procedure describes the procedures for the designation of Network Resources; the circumstances in which a seller of energy may designate the sold energy as a Network Resource; the circumstances in which a purchaser of energy from a third party may designate the purchase as a Network Resource; and the procedures for undesignating and redesignating Network Resources.
MKT-FPOX-00026	FPO NERC E-Tag for Physical Power Deals	Define process developed to ensure compliance with NERC Interchange (INT) Standards; specifically, those related to the completion and validation of NERC E-Tag electronic documents for physical power transactions.
MKT-FPOX-00028	FPO Energy Trade Ticket Process	This procedure defines the set of tasks that must be taken to complete a trade ticket for a power deal with a third party.
MKT-FPOX-00035	FPO – Power Real Time Trading Process	This procedure defines the tasks necessary to complete On System Power Deals.
MKT-FPOX-00090	FPO Operational Communications	The purpose of this procedure is to establish processes for routine daily / hourly communications between FPO Power Trading Operations section and FPO Portfolio Management unit as they interact with Transmission Operations and Planning personnel at the respective Energy Control Centers (ECCs).
MKT-FPOX-00090	FPO Operational Communications	The purpose of this procedure is to establish processes for routine daily / hourly communications between FPO Power Trading Operations section and FPO Portfolio Management unit as they interact with Transmission Operations and Planning personnel at the respective Energy Control Centers (ECCs).
MKT-FPOX-00091	Operational Post Analysis and Transaction Costing Process	This procedure establishes the process for Operational Post Analysis and after-the-fact costing (Recosting) of excess generation sales and economy purchases.
MKT-RCOD-00025	Credit Monitoring Procedure	This procedure provides detailed operational procedures for the monitoring of credit exposure with trading counterparties.
MKT-RCOD-00029	Forward Sale Procedure for Excess Generation	This procedure applies to forward power sales of PEC excess generation beyond one month and out to twelve months. This procedure defines the methodology and modeling used to determine MW available and costs of excess generation, the execution strategy, and reporting requirements to ensure Compliance
MKT-SUBS-00026	Mid-Term Marketing Compliance Guidelines	This procedure provides Mid-Term Marketing compliance guidelines and is designed to provide a deal structuring and approval process that meets the decision and approval timeline requirements of the short term market. This procedure provides the minimum approval requirements.
MNT-SUBS-00003	Generating Unit Maintenance Scheduling	This procedure establishes the process for the development and revision of the Generating Unit Maintenance Schedule (GMS). The GMS process focuses on long-term optimization for system economics, market opportunities, and craft resources given necessary constraints for system reserve levels, budget, and regulatory constraints.
N/A	Risk Management Policy	Risk management is the process of identifying and measuring risks, and developing and implementing strategies based on the company's risk tolerances.
OPS-FPOX-00001	GenTrader Schedule of Authorities	The purpose of this document is to define the responsibilities of Portfolio Management (PM), and Information Technology and Telecommunications (IT&T) positions related to management and use of the Fuels & Power Optimization (FPO) GenTrader (GT) system
OPS-FPOX-00003	GenTrader Usage Procedure	The purpose of this document is to describe the procedures to be followed when using the Fuels & Power Optimization (FPO) GenTrader (GT) system used by Portfolio Management (PM) groups.

Attachment G

Progress Energy Florida Guidelines and Procedures

Document Number	Document Title	Document Summary
OPS-SUBS-00012	Operating Plan Development and Implementation	This procedure defines the functions of the organization and the communications necessary to support economic optimization of all resources while considering operational constraints and reserve margins requires for system reliability.
OPS-SUBS-00018	Constrained Operations Application	This procedure defines the functions of the organization and the communications necessary to support the planning and implementation of unit constraints, including testing, maintenance, and derates, in an economic manner, considering operational constraints and margins required for system reliability.
OPS-SUBS-00030	Generation and Fuel Forecast	This procedure establishes the roles, responsibilities, and process for the Generation and Fuel Forecast (GFF). The primary objective of the GFF is to provide updates to the 20-year planning horizon of planned generation and resource additions.
REG-SUBS-00001	Standards of Conduct – Posting Requirements Document number	Pursuant to Federal Energy Regulatory Commission (FERC) Regulations, Progress Energy and its subsidiaries and affiliates are required to post certain information related to the FERC Standards of Conduct.
REG-SUBS-00006	PE ERO Corporate Governance	This procedure establishes the corporate standards for compliance initiatives with the Federal Energy Regulatory Commission (FERC) regulation of Bulk Electric System reliability through the FERC-approved Electric Reliability Organization (ERO).
REG-SUBS-00029	FERC Compliance Governance	This procedure establishes the corporate standards for compliance with the Federal Energy Regulatory Commission (FERC) regulations.
RMC –1	Risk Management Committee Guidelines	The objective of these guidelines is to identify the roles, responsibilities, and decision- making process of the Progress Energy Risk Management Committee (RMC) and its agents.

Note: These policies and procedures are as of July 12, 2010