

# **3Q-2009 Earnings Call**

**October 30, 2009**



# Caution Regarding Forward-Looking Statements

*This presentation contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The matters discussed in this document involve estimates, projections, goals, forecasts, assumptions, risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.*

*Examples of factors that you should consider with respect to any forward-looking statements made throughout this document include, but are not limited to, the following: the impact of fluid and complex laws and regulations, including those relating to the environment and the Energy Policy Act of 2005; the ability to meet the anticipated future need for additional baseload generation and associated transmission facilities in our regulated service territories and the accompanying regulatory and financial risks; the financial resources and capital needed to comply with environmental laws and renewable energy portfolio standards and our ability to recover related eligible costs under cost-recovery clauses or base rates; our ability to meet current and future renewable energy requirements; the inherent risks associated with the operation and potential construction of nuclear facilities, including environmental, health, regulatory and financial risks; the impact on our facilities and businesses from a terrorist attack; weather and drought conditions that directly influence the production, delivery and demand for electricity; recurring seasonal fluctuations in demand for electricity; the ability to recover in a timely manner, if at all, costs associated with future significant weather events through the regulatory process; economic fluctuations and the corresponding impact on our customers, including downturns in the housing and consumer credit markets; fluctuations in the price of energy commodities and purchased power and our ability to recover such costs through the regulatory process; our ability to control costs, including operations and maintenance expense (O&M) and large construction projects; the ability of our subsidiaries to pay upstream dividends or distributions to Progress Energy; the duration and severity of the recession; the ability to successfully access capital markets on favorable terms; the stability of commercial credit markets and our access to short- and long-term credit; the impact that increases in leverage may have on us; our ability to maintain our current credit ratings and the impact on our financial condition and ability to meet our cash and other financial obligations in the event our credit ratings are downgraded; our ability to fully utilize tax credits generated from the previous production and sale of qualifying synthetic fuels under Internal Revenue Code Section 29/45K; the investment performance of our nuclear decommissioning trust funds; the investment performance of the assets of our pension and benefit plans and resulting impact on future funding requirements; the impact of potential goodwill impairments; the outcome of any ongoing or future litigation or similar disputes and the impact of any such outcome or related settlements; and unanticipated changes in operating expenses and capital expenditures. Many of these risks similarly impact our nonreporting subsidiaries. These and other risk factors are detailed from time to time in our filings with the SEC. All such factors are difficult to predict, contain uncertainties that may materially affect actual results and may be beyond our control. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor can management assess the effect of each such factor on us.*

*Any forward-looking statement is based on information current as of the date of this presentation and speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made.*

# **Bill Johnson**

## **Chairman, President and CEO**

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# Topics

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- 3<sup>rd</sup> quarter highlights
- Florida regulatory update
- Wayne County repowering

# 3<sup>rd</sup> Quarter Highlights

(Unaudited)

	<u>2009</u>	<u>2008</u>
● Third-quarter ongoing earnings*	\$342M \$1.22 / share	\$306M \$1.17 / share
● Year-to-date ongoing earnings*	\$704M \$2.53 / share	\$653M \$2.50 / share
● Reaffirming 2009 ongoing earnings guidance of \$2.95 - \$3.15 per share		

\* See appendix for reconciliation of ongoing EPS to reported GAAP EPS.

# Florida Rate Case Summary

- Requested increase \$499 million
- Regulatory equity in capital structure 50.52%
- Return on equity 12.54%
- Weighted average cost of capital 9.21%
- Rate base (13-month average) \$6.24 billion
- Projected test year ended 2010
- Schedule
  - Hearings Sept 21 – Oct 1, 2009
  - FPSC vote on revenue requirements Jan 11, 2010
  - FPSC vote on rate design & factors Jan 28, 2010
  - Rate implementation TBD

# Wayne County Repowering

- PEC announced gas-for-coal repowering
  - ◆ Retire Lee coal plant
    - 397 MW; 3 units
    - Built 1951, 1952 & 1962
  - ◆ Build new Wayne County CCGT
    - 950 MW; 3x1 configuration
    - In-service by early 2013
- Facilitates environmental compliance
  - ◆ CAIR / Clean Smokestacks Act
  - ◆ Potential carbon legislation
- Opportunity for fuel diversification and potential fuel / O&M savings
- Incremental rate base
  - ◆ \$900M total investment
  - ◆ Avoids \$330M Sutton dry scrubber



397-MW H.F. Lee coal plant  
in Wayne County, NC

**NCUC approved needs certificate on October 1, 2009.**

# **Mark Mulhern**

## **Chief Financial Officer**

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# Topics

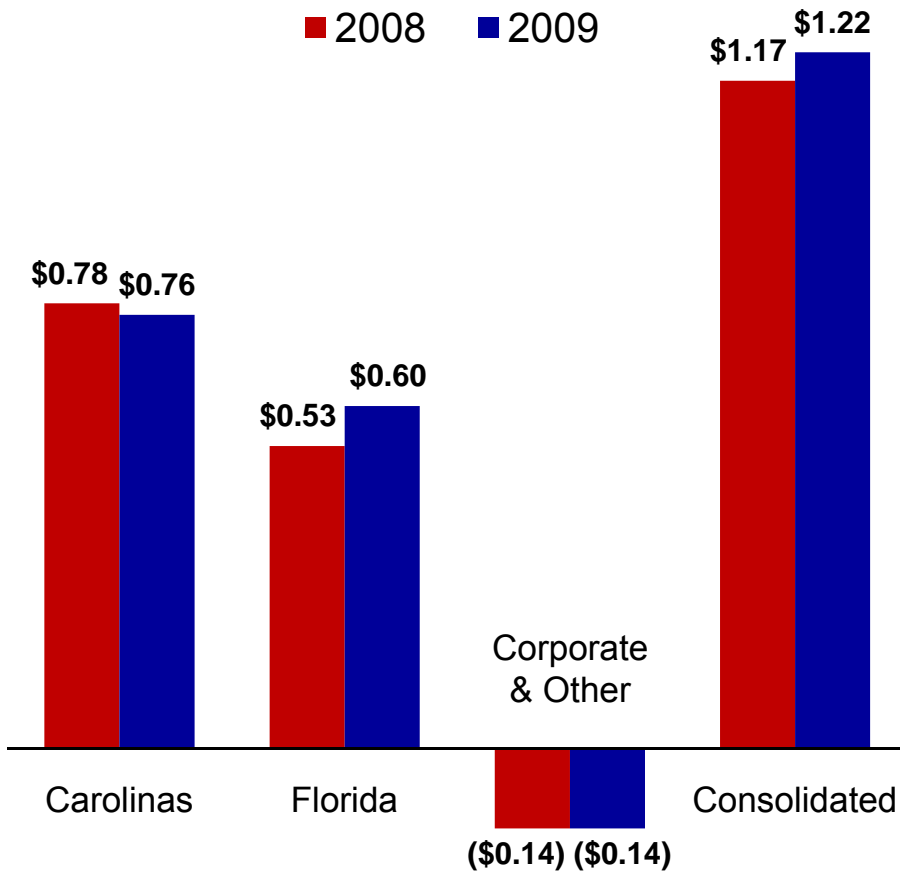
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- Ongoing earnings review
- Gross margin discussion
- Florida nuclear cost recovery
- Cost management

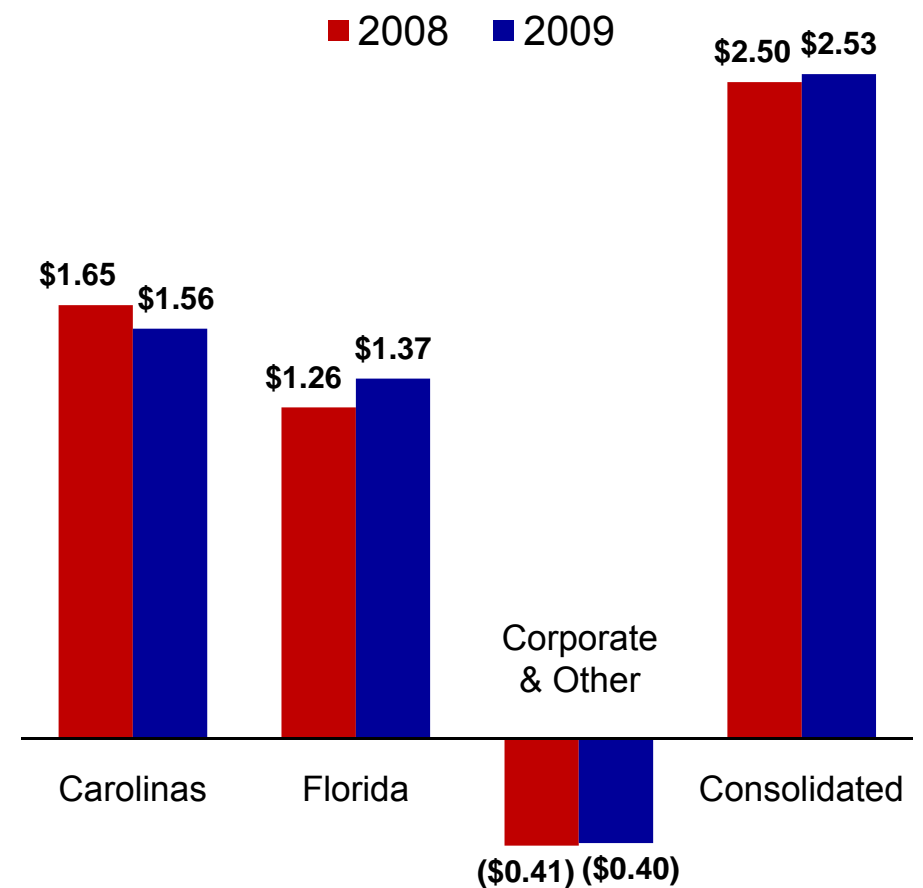
# 2009 Ongoing EPS on Track \*

(Unaudited)

## 3<sup>rd</sup> Quarter



## Year-to-Date



\* See appendix for reconciliation of ongoing EPS to reported GAAP EPS.

# Third Quarter-over-Quarter Ongoing Earnings Variances

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- Key favorable variances (+27¢)
  - ↑ 9¢ retail rates primarily due to impact of interim and limited rate relief in Florida
  - ↑ 9¢ other margin primarily due to return on nuclear and environmental cost-recovery clause assets in Florida
  - ↑ 7¢ O&M primarily due to cost management
  - ↑ 2¢ weather in Florida
- Key unfavorable variances (-22¢)
  - ↓ 8¢ retail growth and usage
  - ↓ 8¢ share dilution
  - ↓ 3¢ depreciation and amortization in Florida
  - ↓ 2¢ AFUDC equity in Florida
  - ↓ 1¢ other

# Year-to-Date Ongoing Earnings Variances

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- Key favorable variances (+55¢)
  - ↑ 15¢ other margin primarily due to return on nuclear and environmental cost-recovery clause assets in Florida
  - ↑ 11¢ retail rates primarily due to impact of interim and limited rate relief in Florida
  - ↑ 11¢ weather
  - ↑ 8¢ AFUDC equity
  - ↑ 6¢ depreciation and amortization in Carolinas
  - ↑ 4¢ O&M primarily due to cost management
- Key unfavorable variances (-52¢)
  - ↓ 20¢ retail growth and usage
  - ↓ 17¢ share dilution
  - ↓ 9¢ interest expense
  - ↓ 4¢ depreciation and amortization in Florida
  - ↓ 2¢ other

# Selected Income Statement Variances

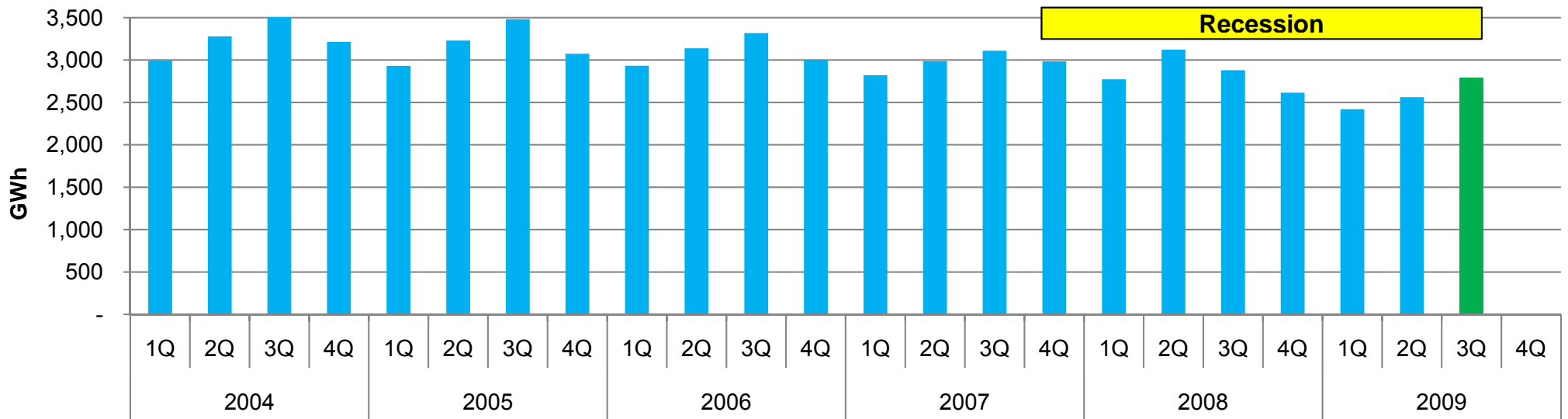
(Unaudited)

(\$ in millions)	Nine months ended Sept 30,		Increase / (Decrease)	Comment
	2009	2008		
Revenues	\$ 7,578	\$ 7,006	\$ 572	+ Fuel cost recovery + Nuclear cost recovery + Environmental cost recovery + Retail base rates
Fuel and purchased power	3,454	3,274	180	+ Deferred fuel expense - Purchased power expense - Deferred capacity costs
O&M	1,360	1,370	(10)	Cost management (see Adjusted O&M slide)
D&A	877	619	258	+ Florida nuclear cost recovery - Clean Smokestacks amortization & Harris depreciation + Increased depreciable base
Other operating expense (income)	14	(6)	20	+ Disallowance of fuel costs in FL + Prior-year gains on land sales
AFUDC - equity	95	84	11	Construction program
Interest charges	534	493	41	Financing construction program
Ongoing earnings *	704	653	51	\$2.53 EPS YTD 2009 vs \$2.50 EPS YTD 2008

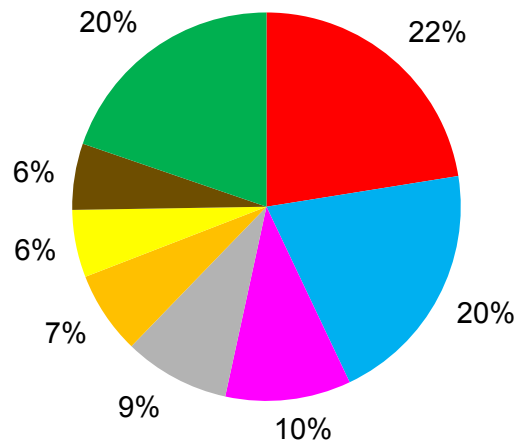
\* See appendix for reconciliation of ongoing EPS to reported GAAP EPS.

# Carolinas

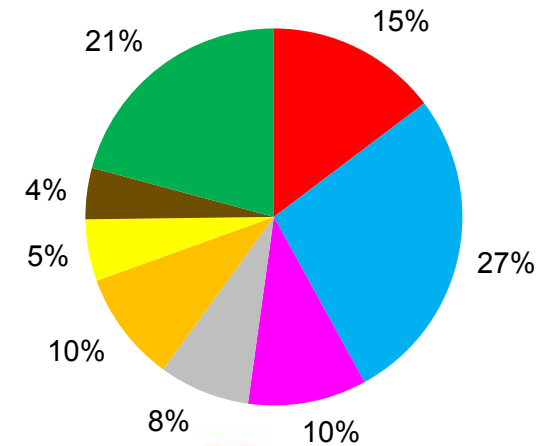
## Industrial Sales Dynamics



**2004**



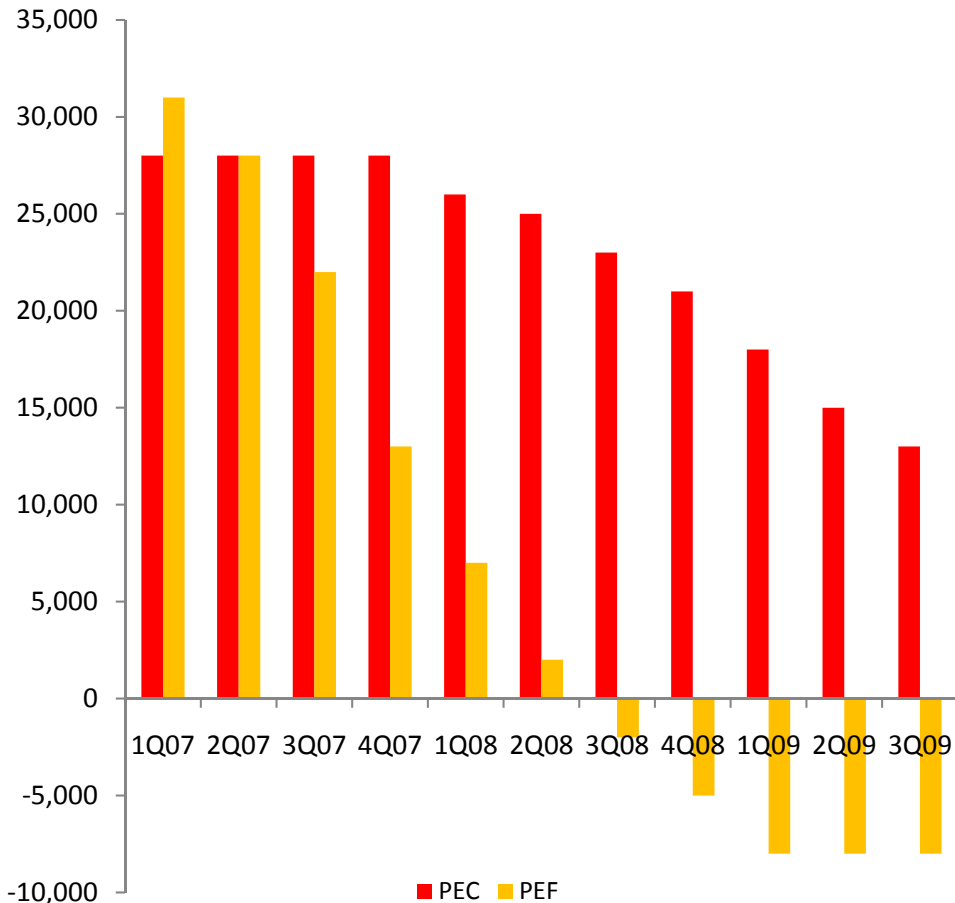
**2009 YTD**



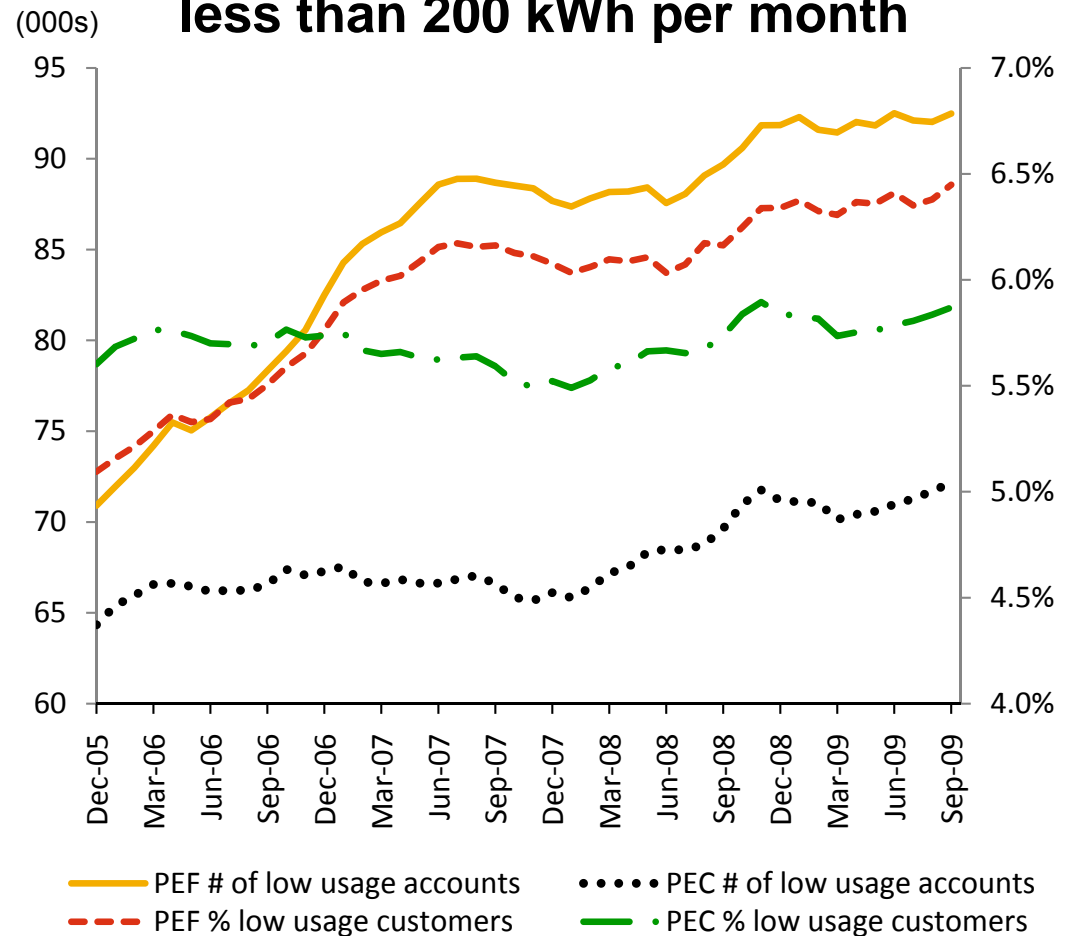
- SIC 22 - Textiles
- SIC 28 - Chemicals
- SIC 26 - Paper Products
- SIC 33/34 - Prim / Fabr Metals
- SIC 20 - Food
- SIC 30 - Rubber & Plastics
- SIC 24 - Lumber Products
- SIC OM - Other SIC Codes

# Customer Growth & Usage

## Average Customer Growth \*



## Residential Customers using less than 200 kWh per month



\* Approximate average net increase in number of customers for respective three-month periods compared to prior year.

# Nuclear Cost-Recovery Update

- On October 16, FPSC clarified accounting treatment of nuclear cost-recovery deferrals and their respective carrying charges
  - Deferred nuclear costs will earn cash at fixed AFUDC return (8.848%)
  - Nuclear costs will be recovered based on FPSC-approved projections
  - Therefore, PEF assigned capacity revenues to match FPSC-approved projected level of nuclear cost recovery
  - This clarification is reflected in 3Q-09 financials
- FPSC also approved PEF's alternative cost-recovery plan
  - Allows PEF to recover \$207M in rates beginning January 2010
  - 5-year amortization with flexibility to propose future alternative
  - Reduces impact to customer during difficult economic period
  - Allows PEF to accrue/collect AFUDC on deferred amounts

**In 3Q-09, PEF recognized additional amortization of nuclear cost and unrecovered costs earned higher returns than previously recognized.**

# Nuclear Cost-Recovery Analysis

(\$ in millions)

## Reconciliation of 2010 Revenue Requirement

PEF's alternative cost recovery proposal	\$236
Recovery in 2010 as part of CCRC true-up	(23)
True-up based on lower spending at CR3	<u>(6)</u>
FPSC-approved 2010 revenue requirement	\$207

## Nuclear Revenue Breakdown

	YTD 9/30/09	2010E
Preconstruction costs	\$78	\$106
O&M	4	5
Carrying charges	44	59
Amortization of deferral	<u>181</u>	<u>37</u>
Total nuclear revenue	\$307	\$207

# O&M Cost Management

(Unaudited)

## Adjusted O&M Reconciliation (A)

<i>(in millions)</i>	Nine months ended		Growth
	September 30, 2009	September 30, 2008	
<b>Reported GAAP O&amp;M</b>	<b>\$1,360</b>	\$1,370	-0.7%
<b>Adjustments</b>			
Carolinas			
O&M recoverable through clauses	(27)	(18)	
Timing of nuclear outages	(28)	-	
Litigation judgment	(4)	-	
Plant retirement charge	(6)	-	
Florida			
Storm damage reserve	-	(66)	
Energy conservation cost recovery clause (ECCR)	(56)	(52)	
Environmental cost recovery clause (ECRC)	(73)	(27)	
Nuclear cost recovery	(3)	(2)	
Sales and use tax audit adjustments	-	5	
Severance associated with Energy Delivery restructuring	-	(6)	
Vacation benefits policy change	9	-	
<b>Adjusted O&amp;M</b>	<b>\$1,172</b>	\$1,204	-2.7%

A - The preceding table provides a reconciliation of reported GAAP O&M to Adjusted O&M. Adjusted O&M excludes certain expenses that are recovered through cost-recovery clauses which have no material impact on earnings, as well as certain non-recurring items. Management believes this presentation is appropriate and enables investors to more accurately compare the company's O&M expense over the periods presented. Adjusted O&M as presented here may not be comparable to similarly titled measures used by other companies.

# 2009 Ongoing Earnings Guidance

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- On track after 3<sup>rd</sup> quarter 2009
- Reminders about 4<sup>th</sup> quarter 2008:
  - ◆ Unfavorable weather (*2¢ below normal*)
  - ◆ Harris depreciation (*6¢ charge*)
- Challenging top-line revenue in 4<sup>th</sup> quarter 2009

**Affirm 2009 ongoing earnings guidance of  
\$2.95 - \$3.15 per share.**

# Conclusion

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- On track to deliver 2009 ongoing earnings guidance
- Focused on a strong finish to 2009:
  - ◆ Florida rate case outcome
  - ◆ O&M cost management
  - ◆ Successful outage execution
  - ◆ Completion of major capital projects

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# Appendix

# Reconciliation of Ongoing to GAAP Earnings

## Progress Energy, Inc. Reconciliation of Ongoing Earnings per Share to Reported GAAP Earnings per Share

	<u>Three Months Ended September 30</u>		<u>Nine Months Ended September 30</u>	
	<u>2009</u>	<u>2008*</u>	<u>2009</u>	<u>2008*</u>
Ongoing earnings per share	\$1.22	\$1.17	\$2.53	\$2.50
Tax levelization	0.02	0.01	(0.02)	0.03
Discontinued operations	(0.36)	-	(0.37)	0.25
CVO mark-to-market	0.01	-	0.04	(0.01)
Impairment	-	-	(0.01)	-
Plant retirement charge	(0.01)	-	(0.01)	-
Reported GAAP earnings per share	<u>\$0.88</u>	<u>\$1.18</u>	<u>\$2.16</u>	<u>\$2.77</u>
Shares outstanding (millions)	<u>280</u>	<u>262</u>	<u>279</u>	<u>261</u>

\* Previously reported 2008 earnings per share has been restated to reflect the adoption of new accounting guidance that changed the calculation of the number of average common shares outstanding.

# Ongoing Earnings Adjustments

Progress Energy's management uses ongoing earnings per share to evaluate the operations of the company and to establish goals for management and employees. Management believes this presentation is appropriate and enables investors to more accurately compare the company's ongoing financial performance over the periods presented. Ongoing earnings as presented here may not be comparable to similarly titled measures used by other companies.

Reconciling adjustments from ongoing earnings to GAAP earnings are as follows:

## ***Tax Levelization***

Generally accepted accounting principles require companies to apply an effective tax rate to interim periods that is consistent with a company's estimated annual tax rate. The company projects the effective tax rate for the year and then, based upon projected operating income for each quarter, raises or lowers the tax expense recorded in that quarter to reflect the projected tax rate. The resulting tax adjustment decreased earnings per share by \$0.02 for the quarter and increased earnings per share by \$0.01 for the same period last year, but has no impact on the company's annual earnings. Because this adjustment varies by quarter but has no impact on annual earnings, management does not consider this adjustment to be representative of the company's ongoing earnings.

## ***Discontinued Operations***

The company has reduced its business risk by exiting nonregulated businesses to focus on the core operations of the utilities. The company recorded the impact of a verdict to pay damages in a breach-of-contract lawsuit related to ownership interests in certain of our synthetic fuel facilities that decreased earnings per share by \$0.36 for the quarter. Due to disposition of these assets, management does not view this activity as representative of the ongoing operations of the company.

## ***Contingent Value Obligation (CVO) Mark-to-Market***

In connection with the acquisition of Florida Progress Corporation, Progress Energy issued 98.6 million CVOs. Each CVO represents the right of the holder to receive contingent payments based on net after-tax cash flows above certain levels of four synthetic fuels facilities purchased by subsidiaries of Florida Progress Corporation in October 1999. The CVO liability is valued at fair value, and unrealized gains and losses from changes in fair value are recognized in earnings each quarter. The CVO mark-to-market increased earnings per share by \$0.01 for the quarter and had no impact on earnings for the same period last year. Progress Energy is unable to predict the changes in the fair value of the CVOs, and management does not consider this adjustment to be representative of the company's ongoing earnings.

## ***Impairment***

The company has recorded impairments of certain investments of its Affordable Housing portfolio. The impairments had no impact on earnings for the quarter or for the same period last year. Management does not consider this impairment to be representative of the company's ongoing earnings.

## ***Plant retirement charge***

The company recognized a charge for the impact of PEC's decision to construct a new natural gas plant to replace certain coal-fired generating units, with resulting reduced emissions for compliance with the Clean Smokestacks Act's 2013 emission targets. The charge decreased earnings per share by \$0.01 for the quarter. As the coal-fired generating units will be retired prior to their estimated useful lives, management does not consider this charge to be representative of the company's ongoing earnings.

# Levy Nuclear Capex Update

*(\$ in millions)*

	2006-2008	2009E	2010E	Total
<b>Preconstruction</b>				
Generation	168	276	100	544
Transmission	11	16	23	50
<b>Total Preconstruction</b>	<b>178</b>	<b>292</b>	<b>124</b>	<b>594</b>
<b>Construction</b>				
Generation	52	0	10	63
Transmission	12	25	54	91
<b>Total Construction</b>	<b>64</b>	<b>25</b>	<b>65</b>	<b>154</b>
<b>Total Levy Nuclear CapEx</b>	<b>243</b>	<b>317</b>	<b>189</b>	<b>748</b>

*Source: Docket #090009-EI filed with the Florida Public Service Commission on May 1, 2009.*

Potential Nuclear Construction (per 10-K)	260 - 560	460 - 660
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**Progress Energy**