

# **Q1-2008 Earnings Call**

**May 8, 2008**



# 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 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 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 operation and maintenance expense (O&M) and large construction projects; the ability of our subsidiaries to pay upstream dividends or distributions to the Parent; the ability to successfully access capital markets on favorable terms; 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 and the assets of our pension and benefit plans; 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 United States Securities and Exchange Commission. 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 document 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, CEO and President**



# Topics

---

- General comments on first quarter 2008
- Regulatory and legislative update
- Update on Levy County nuclear project

# First Quarter 2008 Results

---

- Milder than normal weather
- Lower-than-expected customer growth and usage
  - ◆ Lower revenue growth expectations in Florida
  - ◆ Carolinas economy has been resilient
  - ◆ Long-term economic outlook remains strong
- Steps to mitigate softening retail business
  - ◆ Wholesale business
  - ◆ Cost management
- Reaffirm 2008 earnings guidance of \$3.05 per share, +/- 10 cents

# Regulatory and Legislative Update

## Progress Energy Carolinas

---

- Received final implementation rules from NCUC
- Filed initial EE & DSM programs
  - ◆ Proposed shared-savings model
  - ◆ Phase I programs
    - Distribution system demand response program (DSDR; formerly Smart Grid)
    - EnergyWise™ – residential A/C load control
    - New construction and retrofit programs
  - ◆ Potential for nearly 450 MW peak demand reduction

# Regulatory and Legislative Update

## Progress Energy Florida

---

- Legislature passed comprehensive energy bill
- Key provisions of interest to PEF
  - ◆ Transmission line siting
  - ◆ Transmission cost recovery
  - ◆ Eminent domain proceeding timelines
- Other key provisions
  - ◆ Renewable portfolio standards
  - ◆ Carbon emission cap-and-trade program
  - ◆ ROE incentives for utility EE & DSM threshold
  - ◆ Creation of Florida Energy and Climate Commission

# Recent Nuclear Cost Recovery Filings

---

- Crystal River 3 (180 MW uprate)
  - ◆ Nuclear cost recovery of carrying charges during construction beginning Jan-09
  - ◆ Updated capital costs (\$364M excluding AFUDC)
  - ◆ Lower than need filing, primarily because transmission upgrades are not necessary
- Levy County
  - ◆ Development costs for 2007-2008
  - ◆ \$-for-\$ development cost recovery beginning Jan-09, pending FPSC hearing and order

# Levy County Milestones

---

- Needs case hearing May 21-23
- Expect FPSC order by Aug-08
- Development cost recovery hearing Sept-08

# Conditions to Proceed with New Nuclear

---

- Firm design with clear visibility to costs
- Satisfactory EPC contract
- Credible financing plan with contingencies
- Continuing legislative, regulatory and public support

# Climate Legislation Needs

---

- Clear and achievable objective and plans
- Rational carbon pricing and allocation methodology
- Cost mitigation mechanism

# Value Proposition: A Superior Risk-Adjusted Return

---

- Attractive dividend yield with growth commitment
- Long-term earnings growth supported by sales and rate base growth
- Clear business model with successful execution history
- Balance sheet and credit metrics support strategy
- Low risk exposure to:
  - Commodity markets
  - Trading
  - Reregulation/windfall profits

***A solid, low-risk, long-term holding***

# **Peter Scott**

## **Chief Financial Officer**

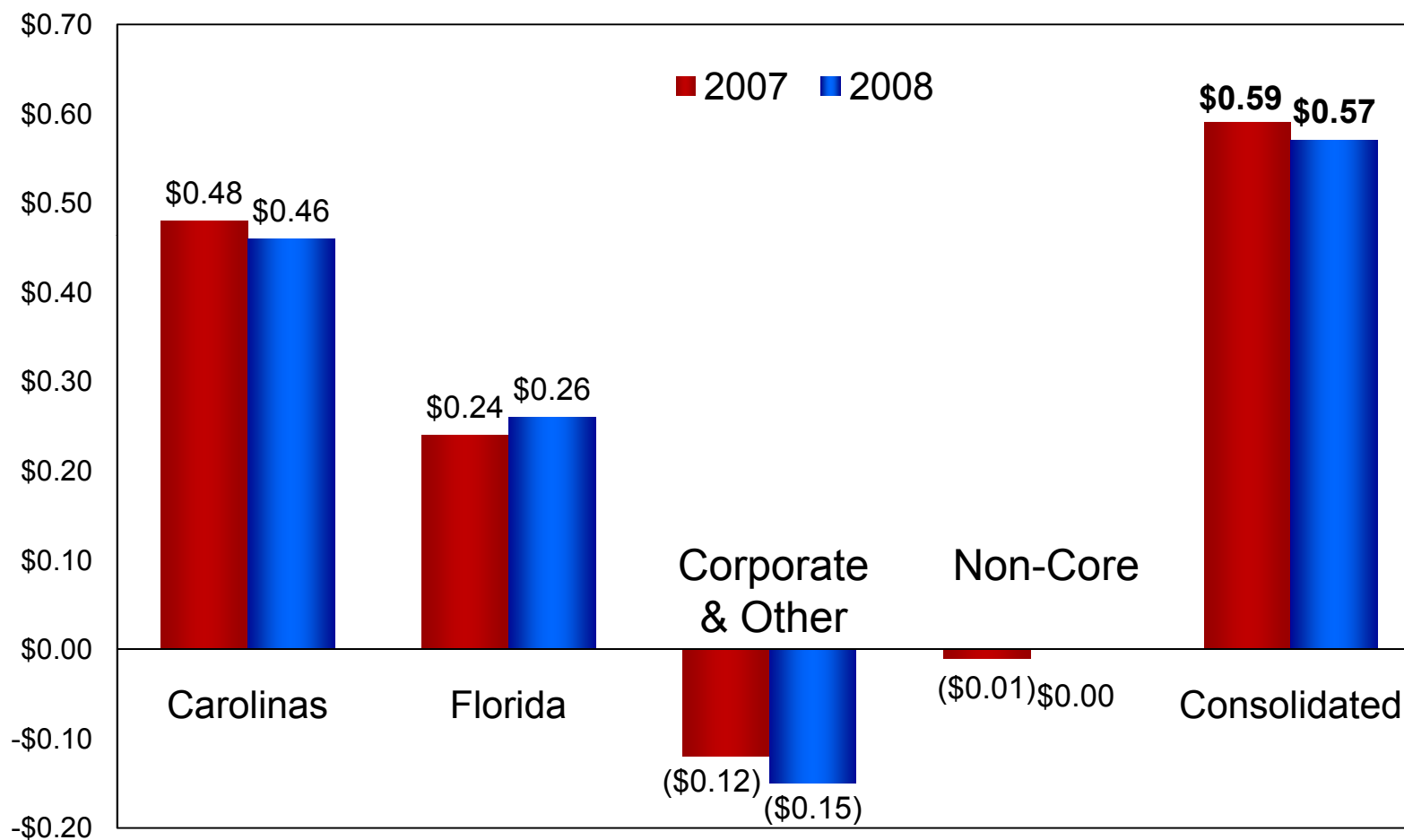


# Primary Topics

---

- Quarter-over-quarter results
- Q1-2008 plan-to-actual variances
- Service territory economic issues
- Reaffirm 2008 earnings guidance

# First Quarter Ongoing EPS \*



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

# Quarter-over-Quarter Variances

---

- Key favorable variances
  - ↑ 3¢ better Carolinas retail growth and usage
  - ↑ 2¢ better Florida wholesale margins
  - ↑ 5¢ better AFUDC equity combined
  - ↑ 3¢ higher base rates in Florida from Hines Energy Complex
  - ↑ 4¢ recovery of reagents and changes in purchased power recoveries and costs in the Carolinas
- Key unfavorable variances
  - ↓ 2¢ lower Florida retail growth and usage
  - ↓ 3¢ lower Carolinas wholesale margins from short-term opportunity sales
  - ↓ 2¢ higher amortization in the Carolinas due to Clean Smokestacks
  - ↓ 2¢ higher interest expense
  - ↓ Taxes and weather that will vary quarter to quarter

# Adjusted O&M Reconciliation

<b>Adjusted O&amp;M Reconciliation</b>			
	<b>Three months ended March 31</b>		
<i>(in millions)</i>	<b>2008</b>	<b>2007</b>	<b>Growth</b>
<b>Reported GAAP O&amp;M</b>	<b>\$443</b>	<b>\$420</b>	<b>5.5%</b>
<b>Adjustments:</b>			
Carolinias:			
O&M recoverable through clauses	(5)	-	
Timing and scope of nuclear outages	-	(6)	
Florida:			
Storm damage reserve	(26)	-	
Energy conservation cost recovery clause (ECCR)	(15)	(15)	
Environmental cost recovery clause (ECRC)	(7)	(11)	
Sales and use tax audit adjustment assessment	5	-	
<b>Adjusted O&amp;M</b>	<b>\$395</b>	<b>\$388</b>	<b>1.8%</b>

Progress Energy's management uses Adjusted O&M to evaluate the cost management of the company. 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. The preceding table provides a reconciliation of reported GAAP O&M to Adjusted O&M.

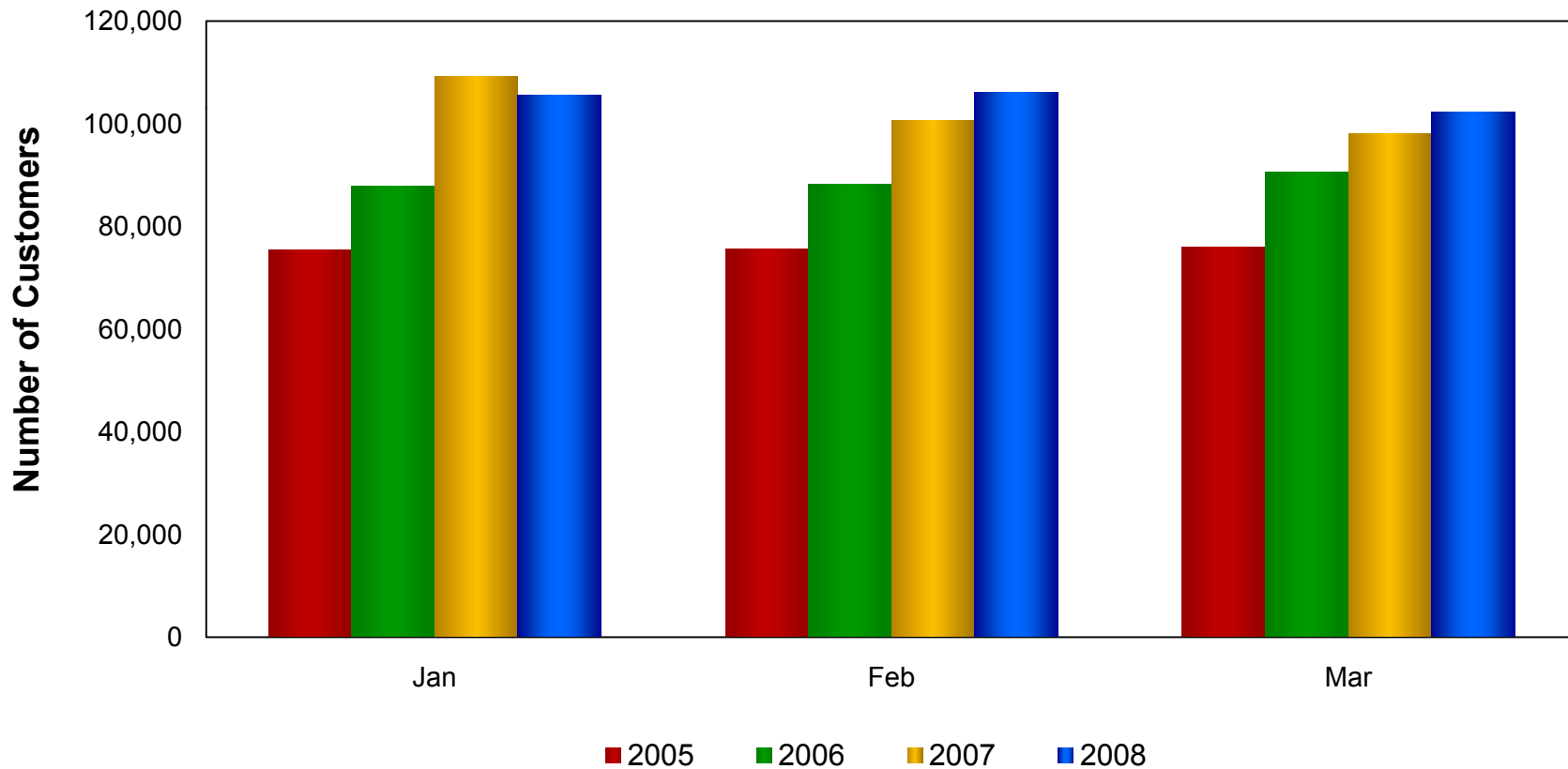
# Q1-2008 Plan-to-Actual Variances

---

- Key unfavorable variances from plan
  - ↓ 6¢ milder than normal weather
  - ↓ 3¢ lower growth and usage in Florida
  - ↓ 2¢ less short-term opportunistic wholesale sales in the Carolinas
- On target or slightly better than plan
  - ↑ O&M spending
  - ↑ Interest costs
  - ↑ Depreciation
  - ↑ AFUDC equity

# Progress Energy Florida Residential Customers

**PEF Residential “Low Usage” Bills**  
(Nonseasonal bills using  $1 < \text{KWh} < 200$ )



# Reaffirm 2008 Earnings Guidance

---

- Steps to offset Florida retail weakness
  - ◆ Increased long-term wholesale contracts in Florida
    - Added or amended long-term contracts
    - Additional wholesale margin thru 2009
    - Impact began late in the 1<sup>st</sup> quarter
  - ◆ Cost management
- Reaffirm 2008 ongoing earnings guidance of \$3.05 per share, +/- 10 cents

# Major Capex Projects on Track

---

- Florida
  - ◆ \$1.4B environmental upgrade at Crystal River 4 & 5
  - ◆ \$364M uprate at CR3 nuclear plant (180 MW)
  - ◆ \$683M Bartow repowering (net +715 MW)
- Carolinas
  - ◆ \$574M Richmond County CCGT (600 MW + Transmission)
  - ◆ \$90M Wayne County CT (157 MW)
  - ◆ Clean Smokestacks

---

# Appendix

# Reconciliation of Ongoing to GAAP Earnings \*

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

	<u>Carolinas</u>	<u>Florida</u>	<u>Corporate &amp; Other</u>	<u>Non-Core</u>	<u>Consolidated</u>
<b>Three Months ended March, 31 2007</b>					
Ongoing EPS	\$0.48	\$0.24	(\$0.12)	(\$0.01)	\$0.59
Tax levelization			(0.01)		(0.01)
Discontinued operations				0.49	0.49
CVO mark-to-market			0.01		0.01
Reported GAAP EPS	<u>\$0.48</u>	<u>\$0.24</u>	<u>(\$0.12)</u>	<u>\$0.48</u>	<u>\$1.08</u>
<b>Three Months ended March, 31 2008</b>					
Ongoing EPS	\$0.46	\$0.26	(\$0.15)	\$0.00	\$0.57
Tax levelization	0.01				0.01
Discontinued operations				0.23	0.23
Reported GAAP EPS	<u>\$0.47</u>	<u>\$0.26</u>	<u>(\$0.15)</u>	<u>\$0.23</u>	<u>\$0.81</u>

\* Previously reported 2007 results have been restated to reflect discontinued operations.



# 2008 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 GAAP earnings to ongoing earnings are as follows:

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 increased earnings per share by \$0.01 for the quarter and decreased 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 believes this adjustment is not representative of the company's ongoing quarterly earnings.

## ***Discontinued Operations***

The company has reduced its business risk by exiting nonregulated businesses to focus on the core operations of the utilities. The discontinued operations of these nonregulated businesses increased earnings per share by \$0.23 for the first quarter of 2008 and by \$0.49 for the same period last year. See page S-3 of the supplemental data for further information on the impact of discontinued operations. 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 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 had no impact on earnings for the first quarter of 2008 and increased earnings per share by \$0.01 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 the adjustment to be a component of ongoing earnings.



**Progress Energy**