FEDERAL ENERGY REGULATORY COMMISSION

WASHINGTON, D.C. 20426

NEWS RELEASE

NEWS MEDIA CONTACT:
Bryan Lee
(202) 502-8680

FOR IMMEDIATE RELEASE
May 25, 2005
Docket No. PA04-10, PA04-12

PROGRESS ENERGY AGREES TO CREDIT $6.4 MILLION TO RESOLVE ISSUES ARISING FROM COMPLIANCE AUDIT

Progress Energy Inc. has agreed to implement 21 specific organizational and procedural recommendations and to credit back to its customers $6.4 million to resolve issues arising from a staff compliance audit. The Federal Energy Regulatory Commission today approved the staff's Audit Report, which outlined the compliance audit findings and recommendations.

Progress Energy was formed in 2000 with the merger of two electric utilities, Florida Power Corporation (FPC) and Carolina Power & Light Company (CP&L). The Division of Operational Audits within the Commission's Office of Market Oversight and Investigations examined the activities of those two utilities and their affiliated power marketers and merchant generators.

The audit examined whether FPC and CP&L were in compliance with the Commission's Standards of Conduct and Open Access Same Time Information System (OASIS) requirements, Codes of Conduct requirements and the companies' Open Access Transmission Tariff provisions.

Of the $6.4 million Progress Energy has agreed to credit back to its customers, $5.4 million will go to retail native load rate payers. The remaining $1 million will be allocated to wholesale customers. Progress Energy also agreed to return $100,000 to customers, which reflects the amount of brokering services provided to the affiliated power marketers but not paid for by them.

Staff's key findings in the audit report include the following:

- During the summer and fall of 2003, the Operating Company's trading group and Affiliated Power Marketers' trading group exchanged market information as part of Progress Energy's strategic evaluation of alternative organizational structures for its marketing operations. This strategic evaluation included the coordination of wholesale marketing strategies that was inconsistent with the requirement in Progress Energy's Codes of Conduct that the Operating Companies and Affiliated Power Marketers operate separately to the maximum extent practical.

- Progress Energy organized its Combustion Turbine Operations group in a manner that created the opportunity for the exchange of market information inconsistent with the Codes of Conduct.
- Employees of the wholesale merchant function and the transmission function took part in a regularly scheduled teleconference each morning. Similarly, a wholesale merchant function trader and a transmission function employee responsible for generation dispatch talked by phone each hour to discuss the capacity that was on-line and available to sell. Such phone conferences could involve the exchange of transmission information off-OASIS, which would be inconsistent with the Standards of Conduct.

The organizational and procedural recommendations that Progress Energy agreed to implement include the following:

- Separate the marketing operations of its wholesale merchant function from its affiliated power marketer to the maximum extent practical.
- Refile the Codes of Conduct for each corporate entity that has market-based rate authority, so that all of its Codes of Conduct are uniform, and include appropriate definitions of market information and support employees.
- Eliminate the scheduled daily phone calls between marketing employees and its transmission function and the scheduled hourly phone calls between traders and generation dispatchers. Instead, the company will implement an alternative method (via an electronic medium) for transmitting the relevant information communicated during the meeting.