BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 1999-434-E/C - ORDER NO. 2000-0229

MARCH 6, 2000

IN RE: Application of Carolina Power & Light Company and Interpath Communications, Inc. to Transfer Ownership of CP&L and Interpath to a Holding Company.	))))))	ORDER APPROVING TRANSFER OF OWNERSHIP TO A HOLDING COMPANY AND APPROVING STIPULATION

INTRODUCTION

This matter comes before the Public Service Commission of South Carolina ("Commission") on the application filed by Carolina Power & Light Company ("CP&L") and Interpath Communications, Inc. ("Interpath") to transfer the ownership of CP&L and Interpath to CP&L Holdings, Inc. ("Holdings"), a holding company. The Application was filed pursuant to S.C. Code Ann. Section 58-27-1300 (Supp. 1998) and S.C. Code Ann. Section 58-9-310 (Supp. 1998).

CP&L is a corporation organized and existing under the laws of the State of North Carolina. CP&L is a public utility engaged in the business of developing, generating, transmitting, distributing, and selling electric power in North and South Carolina. Interpath is a subsidiary of CP&L. Interpath is a telecommunications company authorized by the Commission to provide local and interexchange long distance switched and dedicated services in the State of South Carolina.

The Commission's Executive Director instructed CP&L to publish a prepared Notice of Filing in newspapers of general circulation in the areas affected by the Application. The purpose of the Notice of Filing was to inform interested parties of the nature of the application and of the manner and time in which to file the appropriate pleadings for participation in the proceedings. CP&L complied with this instruction and provided the Commission with proof of publication of the Notice of Filing. Petitions to Intervene were received from the Consumer Advocate for the State of South Carolina ("Consumer Advocate") and Nucor Steel, a division of Nucor Corporation ("Nucor").

APPLICATION

In its Application, CP&L sets forth its position that the requested reorganization is appropriate and in the best interest of the companies involved and the consumers. A brief synopsis of the Application will aid in understanding the request of CP&L and Interpath.

Effective July 14, 1999, CP&L acquired North Carolina Natural Gas Corporation ("NCNG"). NCNG is a local distribution natural gas public utility providing natural gas, propane, and natural gas transportation services to customers in south-central and eastern North Carolina. NCNG is now a wholly-owned subsidiary of CP&L. Upon CP&L's acquisition of NCNG, CP&L became a holding company under the Public Utility Holding Company Act of 1935 ("PUHCA"). However, CP&L is exempt from registration with the Securities and Exchange Commission under Section 3(a)(2) of PUHCA.

By its application, CP&L seeks reorganization of its corporate structure into a registered holding company. CP&L asserts that a reorganization of its corporate structure

into a registered holding company with operating subsidiaries and a service subsidiary will benefit the State of South Carolina and CP&L, NCNG, Interpath, and their customers. To accomplish the restructuring, CP&L has established a North Carolina corporation, CP&L Holdings, Inc., which now has a minimal amount of stock and no present business or properties of its own. All of the currently outstanding shares of Holdings common stock are owned by CP&L. CP&L and Holdings have entered into an Agreement and Plan of Share Exchange, which provides for the exchange of CP&L common stock for Holdings common stock. CP&L will become a wholly owned subsidiary of Holdings, and no new CP&L stock will be issued. Likewise, the common stock of NCNG and Interpath will be exchanged for Holdings common stock resulting in NCNG and Interpath becoming wholly owned subsidiaries of Holdings. Strategic Resource Solutions ("SRS"), a subsidiary of CP&L, is also planned to become a subsidiary of Holdings.

CP&L's outstanding preferred stock will not be exchanged in the share exchange but will continue to be shares of CP&L preferred stock. The share exchange will not change the rights of the holders of these preferred shares as currently provided in CP&L's charter. CP&L's debt will remain unchanged and will continue as outstanding obligations of CP&L after the share exchange. CP&L's common equity will be adjusted for the transfer of any subsidiaries to Holdings but in all other respects will not be affected by the conversion to a new holding company structure. The CP&L Articles of Incorporation will not be changed in any way as a result of the share exchange.

A services company subsidiary will be created that will provide all shared services to the companies owned by Holdings. The allocation of costs between and among all of the Holdings subsidiaries will be performed in accordance with CP&L's Cost Allocation Manual. Further, the application provides that all of the companies within the Holdings structure will be subject to and governed by the Code of Conduct approved by the Commission in its Order No. 1999-508 in Docket No. 1999-077-E.

CP&L intends that its capital structure following the conversion to a holding company structure will remain consistent with past practice. While future events, such as a changing business environment in the utility industry or new accounting requirements issued by the appropriate regulatory authorities, could cause CP&L to change its capital structure, there are no intentions to effect a change at this time. CP&L intends that its capital structure will remain in its current status and not be influenced by any financing activity at Holdings. CP&L also recognizes, and will not object to, the Commission's authority to utilize a reasonable hypothetical capital structure for ratemaking purposes.

According to the Application, the holding company structure proposed by CP&L is in the best interest of CP&L, Interpath, NCNG, their customers, and the State of South Carolina because a holding company structure will allow CP&L and NCNG to more clearly segregate their core utility businesses from their non-utility businesses. This will allow for improved regulatory oversight of CP&L's and NCNG's utility operations because the holding company structure will provide a clearer separation between utility and non-utility activities. CP&L also offers that the creation of a services company will further assist in providing a clearer separation between utility and non-utility services.

Under the holding company structure, shared services will be provided by a separate services company to CP&L, NCNG, Interpath, SRS, and all other subsidiaries. These services will be provided pursuant to the Cost Allocation Manual, and record keeping will clearly separate costs that should be allocated to the regulated businesses from those costs that should be allocated to the unregulated subsidiaries.

CP&L asserts that a parent holding company structure with separate subsidiaries, as proposed, allows a regulated utility to be maintained as a separate legal entity and allows new regulated and non-regulated entities to be added without affecting the legal entities already established under the holding company. The parent holding company structure also provides for a clearer separation of the capital structure that is supporting each legal entity. Further, CP&L offers that the formation of a holding company provides CP&L and NCNG greater flexibility in carrying out business than they are currently able to do today because the holding company makes business combinations and business expansion easier while protecting traditional regulated utility business. Tracking of costs will be more simple as each subsidiary will have revenues it generated, costs it incurred, and its allocated portion of any shared service costs.

CP&L states that it will continue to own and operate all electric distribution and transmission facilities within South Carolina and all existing and certificated electric generating facilities upon completion of the creation of the holding company structure. CP&L will also continue to provide electric service to all customers within its assigned territories. Further, CP&L commits that the Commission will continue to have access to all books and records consistent with the regulatory conditions established by the

Commission in its Order No. 1999-508 in Docket No. 1999-077-E, approving the merger of CP&L and NCNG.

Further, CP&L asserts that the holding company organization proposed by CP&L is common in the utility industry, particularly where regulated and non-regulated businesses are both conducted within the same corporate structure.

STIPULATION

On January 28, 2000, the Consumer Advocate, Nucor, and CP&L filed a joint stipulation for Commission approval. The joint stipulation stated that the parties had reached agreement regarding the appropriate Regulatory Conditions and revisions to CP&L's Code of Conduct that should be adopted in conjunction with CP&L's application to transfer ownership of CP&L and Interpath to the new holding company. Further, the joint stipulation stated that in consideration of and in reliance upon CP&L's agreement to be bound by the agreed upon Regulatory Conditions and revised Code of Conduct that the Consumer Advocate and Nucor agree not to object to Commission approval of CP&L's application to transfer ownership of CP&L and Interpath to the new holding company. The parties request that the Commission approve CP&L's application to transfer ownership of CP&L and Interpath to the new holding company and that such approval be conditioned upon the adoption of the revised Code of Conduct and Regulatory Conditions.

FINDINGS AND CONCLUSIONS

Upon consideration of this matter, the Commission finds that the application of CP&L and Interpath to transfer the ownership of CP&L and Interpath to CP&L Holdings,

Inc., a holding company, should be, and hereby is, approved. Further, the joint stipulation of the parties setting forth the Regulatory Conditions and revised Code of Conduct is also approved and adopted as part of this Order. (Order Exhibit 1, attached hereto, is a copy of the joint stipulation with the Regulatory Conditions and revised Code of Conduct.)

The Commission finds and concludes that the reorganization of CP&L's corporate structure into a registered holding company structure with operating subsidiaries and a service subsidiary is in the best interest of the State of South Carolina and of CP&L, NCNG, Interpath, and their respective customers. The holding company structure will allow CP&L and NCNG to more clearly segregate their core businesses from their non-utility businesses. This situation will allow improved regulatory oversight of CP&L's and NCNG's utility operations by providing a clear separation between utility and non-utility activities. Additionally, a parent holding company structure allows a regulated utility to be maintained as a separate legal entity, and it allows new, regulated entities as well as non-regulated entities to be added without affecting the legal entities already established under the holding company.

With regard to the joint stipulation with the Regulatory Conditions and revised Code of Conduct, the Commission concludes that the joint stipulation with the Regulatory Conditions and revised Code of Conduct is reasonable and appropriate and should be approved. The parties have agreed to the terms and conditions set forth in the stipulation and attached Regulatory Conditions and revised Code of Conduct. As nothing contained therein appears contrary to the public interest, the Commission finds approval of the joint stipulation with Regulatory Conditions and revised Code of Conduct

appropriate. Further, as the parties have expressly agreed that approval of CP&L's and Interpath's request for transfer of ownership to a new holding company be conditioned upon the adoption of the Regulatory Conditions and revised Code of Conduct, the Commission hereby adopts that position of the parties as a part of this Order.

IT IS THEREFORE ORDERED THAT:

1. The application of CP&L and Interpath to transfer the ownership of CP&L and Interpath to CP&L Holdings, Inc., a holding company, is approved.

2. The joint stipulation of the parties setting forth the Regulatory Conditions and revised Code of Conduct is also approved and adopted as part of this Order. To the extent that the Regulatory Conditions and revised Code of Conduct approved herein deviate from or are inconsistent with the Code of Conduct approved by this Commission in Order No. 1999-508 in Docket No. 1999-077-E (approving the merger of CP&L and NCNG), the Regulatory Conditions and revised Code of Conduct approved herein shall take precedence over and supercede the Code of Conduct approved by this Commission in Order No. 1999-508 in Docket No. 1999-077-E.

3. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Philip T. Bradley

Chairman

ATTEST:

Gary E. Walsh

Executive Director

(SEAL)

BEFORE

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SOUTH CAROLINA

DOCKET NO. 1999-434-E/C

Application of Carolina Power & Light Company and Interpath Communications, Inc. to Transfer Ownership of CP&L and Interpath to a Holding Company	))))))	JOINT STIPULATION OF CAROLINA POWER & LIGHT COMPANY, NUCOR STEEL AND THE SOUTH CAROLINA DEPARTMENT OF CONSUMER AFFAIRS

The South Carolina Department of Consumer Affairs ("the Consumer Advocate"), Nucor Steel ("Nucor") and Carolina Power & Light Company ("CP&L") have reached agreement regarding the appropriate Regulatory Conditions and revisions to CP&L's Code of Conduct that should be adopted in conjunction with CP&L's Application to transfer the ownership of CP&L and Interpath Communications, Inc. ("Interpath") to a new holding company. In consideration for, and in reliance upon, CP&L's agreeing to be bound by these Regulatory Conditions and revised Code of Conduct, the Consumer Advocate and Nucor agree not to object to the Commission's approval of CP&L's Application to transfer the ownership of CP&L and Interpath to a new holding company. A copy of the revised Code of Conduct and Regulatory Conditions are attached to this Stipulation as Exhibit No. 1.

Therefore, the parties request that the Commission approve CP&L's Application to transfer the ownership of CP&L and Interpath to a new holding company and that such approval be expressly conditioned upon the adoption of the revised Code of Conduct and Regulatory Conditions and request that the hearing scheduled in this docket be cancelled.

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APPLICATION TO TRANSFER OWNERSHIP TO A HOLDING COMPANY

EXHIBIT NO. 1 TO JOINT STIPULATION OF CAROLINA POWER & LIGHT COMPANY, NUCOR STEEL, AND THE SOUTH CAROLINA DEPARTMENT OF CONSUMER AFFAIRS

REVISED CODE OF CONDUCT AND REGULATORY CONDITIONS

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For purposes of these Regulatory Conditions, the holding company proposed by Carolina Power & Light Company ("CP&L") and Interpath Communications, Inc. ("Interpath"), is referred to as "Holdings". When referred to collectively, CP&L and Interpath are referred to as the "Utilities". When referring to Holdings, the Utilities, and all Affiliates collectively, the entire entity is referred to as the "Restructured Company." The formation of Holdings, the transfer of stock of the Utilities to Holdings and any and all future mergers, corporate restructurings, or other business combinations involving Holdings, CP&L or any of their Affiliates, as defined in the Revised Code of Conduct, is referred to herein as the "Formation". In all cases, the collective references also apply individually to each utility and also refer to the successors and assigns of each entity.

The Restructured Company, and its individual entities, including but not limited to Holdings, CP&L, NCNG and all present and future Affiliates agree to be bound by the following Regulatory Conditions in exchange for the agreement by the Consumer Advocate and Nucor not to object to the Commission's approval of the Application in Docket No. 1999-434-E/C. Therefore, such approval by the Commission shall be expressly conditioned on the agreement to and acceptance of each of these Conditions:

1. Unless explicitly superseded by the conditions contained herein, the Code of Conduct and South Carolina regulatory conditions agreed to by CP&L, and ordered by the South Carolina Public Service Commission ("PSC"), in Docket No. 1999-077-E, remain in full force and effect. The Utilities will provide to the Consumer Advocate a timely copy of all reports, filings and/or other communications to or with the Commission or its Staff that relate to or are required by the Code of Conduct or the Regulatory Conditions in Docket No. 1999-077-E or the Regulatory Conditions in this Docket No. 1999-434-E/C, as they may be amended by the Commission. CP&L agrees that the Consumer Advocate will be automatically deemed as having standing to make requests for hearing and/or investigation by the Commission related to issues arising under or related to these Regulatory Conditions.

2. All costs of the Formation, any future corporate restructuring costs, and all direct and indirect corporate cost increases, if any, attributable to the Formation shall be excluded from the Utilities' utility accounts, and also shall be excluded from utility costs, for all purposes that affect their regulated retail utility rates and charges. For purposes of this condition, the term "corporate cost increases" is defined as costs in excess of the level that the Utilities (1) would have incurred using prudent business judgment to provide public utility service, and (2) would have had allocated to them, had the Formation not occurred. "Corporate cost increases" shall also include payments made under change-of-control agreements, salary continuation agreements, and/or severance- or personnel-type arrangements that are reasonably attributable to

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the Formation.

3. Subject to future orders of the PSC, and to the extent they affect the Utilities' costs of providing public utility service, all administrative and general expenses of Holdings, its affiliates, and the Utilities shall be distributed for South Carolina retail ratemaking purposes by either direct assignment, allocation, or such other means as the PSC may from time-to-time determine are necessary, to assure that the relationship between the Utilities, Holdings, their other affiliates, and their nonpublic utility operations is consistent with the Code of Conduct approved by the PSC (or any subsequent replacement thereof).

4. Within 9 months after Formation, the Utilities shall file cost allocation manuals with the PSC. The cost allocation manuals shall comply with the revised code of conduct and South Carolina regulatory conditions. The cost allocation manuals shall describe how all direct, indirect, and other costs will be charged to capital projects, non-utility operations, and affiliates. In that connection, the Utilities will perform a detailed review of the common costs to be allocated and allocation factors to be used. Within 9 months of Formation, the Utilities shall also each provide a list of items considered to be the shared services of the Utilities and the basis for each determination. If changes to the organization of any of the Utilities' public utility operations occur, the affected Utilities will file with the PSC and provide the Consumer Advocate any resulting changes to their cost allocation manuals within 30 days. As permitted by South Carolina law, the Commission shall retain jurisdiction and authority at any time on its own motion or upon the motion of an interested party with standing, to hold a hearing to review such manuals and to order any changes the Commission deems necessary for South Carolina ratemaking purposes.

5. Within 9 months after Formation, the Utilities shall file with the PSC, a cost allocation manual for each service company or other affiliate providing goods and services to any of the Utilities. The cost allocation manuals shall comply with the revised code of conduct and South Carolina regulatory conditions. Each cost allocation manual shall describe how all direct, indirect, and other costs of such service company or other affiliate will be charged among Holdings, the Utilities, and the other affiliates and nonpublic utility operations, and shall include a detailed review of the common costs to be allocated and the allocation factors to be used. On or prior to the date each such cost allocation manual is filed, each of the Utilities shall file a list of the services and goods that are provided or are anticipated to be provided shortly thereafter by a service company or other affiliate. The Utilities shall not commit to any cost allocation affected by any changes to such cost allocation manual or list of services and goods until ten days after they have filed such changes with the PSC. If changes to the organization of any of the Utilities' public utility

operations occur, the affected Utilities will promptly file with the PSC any resulting changes to any affected cost allocation manual within 30 days. As permitted by South Carolina law, The Commission shall retain jurisdiction and authority at any time on its own motion or upon the motion of an interested party with standing, to hold a hearing to review such manuals and to order any changes the Commission deems necessary for South Carolina ratemaking purposes.

6. The Utilities shall each file annual reports of affiliated transactions with the PSC in a format prescribed by the PSC. The first report on affiliated transactions shall be filed on March 31, 2001, for activity through December 31, 2000, and annually thereafter on March 31. As permitted by South Carolina law, The Commission shall retain jurisdiction and authority at any time on its own motion or upon the motion of an interested party with standing, to hold a hearing to review such reports and to order any changes the Commission deems necessary for South Carolina ratemaking purposes.

7. Transactions between each of the Utilities' regulated operations and its nonpublic utility operations, parent corporation, and other affiliates shall be reviewed regularly by its internal auditors. The Utilities shall make available for review by the Consumer Advocate and the PSC Staff all workpapers relating to the internal audit and all other internal audit workpapers, if any, related to affiliate transactions, and shall not oppose Consumer Advocate and PSC Staff requests to review relevant external audit workpapers. As permitted by South Carolina law, the Commission shall retain jurisdiction and authority at any time on its own motion or upon the motion of an interested party with standing, to hold a hearing to review the results of such audits and to order any changes the Commission deems necessary for South Carolina ratemaking purposes.

8. CP&L will file with the PSC revisions to its electric cost of service manual to reflect any changes to the cost of service determination process made necessary by the Formation, any subsequent alterations in the organizational structure of Holdings or any of its subsidiaries, or other circumstances that necessitate such changes. Upon request, CP&L will provide the Commission Staff, and the Consumer Advocate a copy of any cost of service computer software or program that it uses and a copy of the instructions and relevant data to use in said program. As permitted by South Carolina law, the Commission shall retain jurisdiction and authority at any time on its own motion or upon the motion of an interested party with standing, to hold a

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hearing to review the cost of service manual and to order any changes the Commission deems necessary.

9. As permitted by South Carolina law, the PSC and the Consumer Advocate will continue to have access to the books and records of the Utilities, their affiliates and nonpublic utility operations, and Holdings.

10. The revenues from certain CP&L electric utility wholesale transactions are (a) allocated in part to CP&L's South Carolina retail operations in CP&L's South Carolina retail cost of service study and/or (b) treated in part as a credit to jurisdictional fuel expenses in CP&L's annual South Carolina retail fuel proceedings. To the extent commitments to CP&L's wholesale customers relating to the Formation are made by or imposed upon CP&L, the effects of which serve to increase the South Carolina retail cost of service and/or South Carolina retail fuel costs under reasonable cost allocation practices traditionally followed by CP&L and approved by the PSC, those effects shall not be recognized for South Carolina retail cost of service or ratemaking purposes.

11. The cost of capital conditions included elsewhere herein shall also apply, for South Carolina retail cost of service/ratemaking purposes, in all instances in which the cost of capital affects the determination of Harris Purchased Capacity and Energy Costs calculated pursuant to CP&L's Power Coordination Agreement (PCA) with the North Carolina Eastern Municipal Power Agency (NCEMPA).

12. For South Carolina electric retail cost of service/ratemaking purposes, wherever such costs would affect the determination of Harris Purchased Capacity and Energy Costs calculated pursuant to the PCA with the NCEMPA –

    (a) All costs of the Formation and all direct and indirect corporate cost increases, if any, attributable to the Formation shall be excluded from CP&L's utility accounts and/or costs. For purposes of this condition, the term "corporate cost increases" is defined as costs in excess of the level that CP&L (1) would have incurred using prudent business judgment to provide public utility service or (2) would have had allocated to it using appropriate utility cost allocation principles, had the Formation not occurred.

    (b) Subject to future orders of the PSC, and to the extent they affect the Utilities' costs of providing public utility service, all administrative and general

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expenses of Holdings, its affiliates, and the Utilities shall be distributed for South Carolina retail ratemaking purposes by either direct assignment, allocation, or such other means as the PSC may from time-to-time determine are necessary, to assure that the relationship between the Utilities, Holdings, their other affiliates, and their nonpublic utility operations is consistent with the Code of Conduct approved by the PSC (or any subsequent replacement thereof).

13. The Utilities, their affiliates and nonpublic utility operations, and Holdings shall be bound by the original Code of Conduct and subsequent revisions approved by the PSC. The Code shall be considered the minimum conditions to which the Restructured Company is agreeing and shall not preclude the PSC from amending the Code later to incorporate additional conditions as it deems necessary. For example, if deemed necessary by the Commission, the Code will be modified if there is a change in the Restructured Company's organizational structure, future mergers and/or corporate acquisitions, changes in the structure of the electric or natural gas industry, or if other changes occur that warrant such amendments.

14. CP&L will continue to take steps designed to implement and further its commitment to providing superior public utility service to South Carolina retail customers following the Formation. CP&L shall maintain the overall reliability of its electric service consistent with past practice and the requirements of the PSC. CP&L will work with the PSC and Consumer Advocate to continue to monitor and improve service quality in the manner required by the merger conditions set forth in Docket No. 1999-077-E. As permitted by South Carolina law, the Commission shall retain jurisdiction and authority at any time on its own motion or upon the motion of an interested party with standing, to hold a hearing to review the quality and/or reliability of CP&L's service and to order any actions the Commission deems necessary as a result of the review.

15. The Utilities are required to seek out and buy all goods and services from the lowest cost provider of comparable goods and services. When goods and/or services are procured from affiliates, for cost recovery purposes, the Utilities have the burden of proof to demonstrate that comparable goods or services could not reasonably have been procured at a lower cost from non-Affiliate sources and that the Utilities could not have provided comparable services or goods itself at a lower cost. To this end, each of the Utilities must periodically conduct a market price study for goods and services it receives from Holdings, any service company, or other affiliates, which

allows assessment of whether it could have acquired the services at a lower market cost from nonaffiliated providers, or whether it could have provided the service itself at lower cost. As permitted by South Carolina, the Commission shall retain jurisdiction and authority at any time on its own motion or upon the motion of an interested party with standing, to hold a hearing to review the Utilities' acquisition of goods and/or services and to order any specific ratemaking treatment the PSC determines is necessary as a result of the review.

16. The Utilities shall, on a timely basis, file with the PSC, and provide a copy to the Consumer Advocate, a copy of all documents or reports filed with the SEC by Holdings, any service company, the Utilities, and other affiliates, and a copy of all orders issued by the SEC affecting the Utilities' accounting practices, financings or operations, or transfer prices or allocations affecting the Utilities.

17. CP&L's Nuclear Decommissioning funds shall not be used in full or in part for the purpose of the Formation or any other purpose other than providing financial assurance for decommissioning the Harris, Brunswick, and Robinson nuclear power stations owned by CP&L.

18. If requested by the Consumer Advocate, CP&L shall meet and consult with the Consumer Advocate regarding plans for significant changes in CP&L's and/or the Restructured Company's organization and structure, the impact of such plans on CP&L's rates, operations, and service, and proposals for assuring that such plans do not adversely affect CP&L's South Carolina regulated electric customers.

19. CP&L and Holdings will identify at the time of CP&L's next rate case the amount of Holdings' equity investment in CP&L that is reflected in Holdings' and CP&L's accounting records. Holdings and CP&L shall keep their accounting records in such a manner that will allow components of CP&L's and Holdings' cost of capital to be identified on a separate basis.

20. To the extent the cost rates of CP&L's long-term debt (more than one year), short-term debt (one year or less) or preferred stock are or have been adversely affected by the Formation , through a downgrade or otherwise, a replacement cost rate to remove the effect will be used for all purposes affecting CP&L's rates and charges. This replacement cost rate will be applicable to all financings, refundings, and refinancings. This procedure will be effective through CP&L's next general rate case. As part of CP&L's next general rate case, any future procedure relating to a replacement cost calculation will be determined. In future rate proceedings, in determining CP&L's cost of capital, the objective shall be to insulate CP&L's

customers from any negative effects of the Formation, creation of Affiliates and ongoing activities of any Affiliates on the cost of capital. This condition does not indicate a preference by any party for any specific debt rating or preferred stock rating for CP&L on current or prospective bases.

21. CP&L will identify as clearly as possible long-term debt (of more than one year duration) issued by CP&L, as appropriate, with either (1) the assets that are or will be utilized to provide service to the utility's regulated utility customers or (2) CP&L's existing debt to be replaced with the new debt issuance.

22. The cost of capital conditions herein also will apply to CP&L's determinations of its maximum allowable AFUDC rates, the rates of return applied to any of CP&L's deferral accounts and regulatory assets and liabilities that accrue a return, and any other component of CP&L's cost of service impacted by the cost of debt and/or preferred stock.

23. CP&L will request approval from the PSC in accordance with the applicable laws and PSC rules prior to the issuance of securities.

24. These conditions do not supersede any orders or directives that have been or will be issued by the PSC regarding the issuance of specific securities by CP&L. As with securities issuances prior to the Formation, the issuance of securities by CP&L, Holdings or any other Affiliate after the Formation does not restrict the PSC's right to review, and if deemed appropriate, adjust CP&L's cost of capital for ratemaking purposes for the effect of these securities.

25. For all proposed mergers, corporate restructurings, business acquisitions or sales, or other business combinations involving Holdings, CP&L, and/or their affiliates, CP&L shall provide the PSC and the Consumer Advocate with ninety (90) days written notice of the intent to pursue these actions. As permitted by South Carolina law, the Commission shall retain jurisdiction and authority on its own motion or upon the motion of an interested party with standing, to hold a hearing at any time to review the impact of any proposed merger, corporate restructuring, business acquisition or sale, or other business combination on CP&L and to order any specific ratemaking treatment the PSC determines is necessary as a result of the review.

26. The Utilities agree that the benefits, costs, and associated risks of the Formation and the operation of the Utilities under a holding company structure will continue to be subject to PSC review as part of this docket or other proceedings. As permitted under South Carolina law ,the Commission retains the right to order modifications to the

structure or operations of Holdings and/or any service company providing goods or services to the Utilities, or to take whatever action the PSC deems necessary to protect the Utilities' South Carolina regulated customers.

27. On October 20, 1999, CP&L and Interpath submitted an Application . to transfer their ownership to a Holding Company. Exhibit 4 to the Application was a list of holding company conditions which CP&L stated that it was willing to adopt to address any concerns the South Carolina Public Service Commission may have regarding the creation of a holding company structure by CP&L. Those conditions, as revised by the parties, are incorporated into the Revised Code of Conduct as items 40 - 52 below.

28. CP&L shall not attempt to collect from, or impute, allocate, or assign to its South Carolina operations, any environmental remediation costs relating to any manufactured gas plants or other properties presently or previously owned or to be owned by any affiliate.

29. If Holdings or its Affiliates enters into any mergers, corporate restructurings, business acquisition or sales, or other business combinations, CP&L shall determine the value of all savings resulting from that action, and shall file with the Commission a report detailing any such savings within six months of the consummation of such transaction. A copy shall also be provided to the Consumer Advocate at that time. As permitted by South Carolina law, the Commission shall retain jurisdiction and authority at any time on its own motion or upon the motion of an interested party with standing, to hold a hearing to review such report and all issues related to the report and to order any ratemaking treatment or other actions the Commission deems necessary as a result of the review.

30. CP&L shall identify any potential electric revenue erosion anticipated to result from the expansion of gas service by North Carolina Natural Gas Corporation ("NCNG"), and exclude such erosion from any stranded cost estimates. CP&L shall also incorporate all savings resulting from the NCNG merger and the Formation in all of its determinations of stranded cost. CP&L or the Restructured Company shall not assert that SC retail customers have any responsibility for stranded costs resulting from investments or costs of Holdings or other affiliates. It is expected that the Formation will not increase CP&L's stranded cost estimates, but should substantially reduce CP&L's stranded cost estimates

31. Holdings shall notify the Commission of each new subsidiary and/or Affiliate. The notification shall include an overview of each new subsidiary's and/or Affiliate's intended type of operation and explain the expected impact of each new subsidiary's

and/or affiliate's operation on CP&L's South Carolina rates, charges and costs, and the appropriate cost allocation and transfer pricing rules. As permitted by South Carolina law, the Commission shall retain jurisdiction and authority at any time on its own motion or upon the motion of an interested party with standing, to hold a hearing to review the effect of the new subsidiary or Affiliate on CP&L and to order any specific ratemaking treatment that the Commission deems necessary as a result of the review.

32. Holdings shall notify the Commission of any joint ventures and joint financial arrangements entered into by it or any of its Affiliates. The notification shall include an overview of each new joint venture's intended operations and explain the expected impact on CP&L's South Carolina rates, charges and costs, and the appropriate cost allocation and transfer pricing rules. As permitted by South Carolina law, the Commission shall retain jurisdiction and authority at any time on its own motion or upon the motion of an interested party with standing, to hold a hearing to review the effect of any joint ventures and joint financial arrangements on CP&L and to order any specific ratemaking treatment that the Commission deems necessary as a result of the review.

33. Any acquisition adjustment that results from the Formation (or any future merger or acquisition by Holdings or its affiliates) shall be excluded from CP&L's utility accounts and treated for accounting and ratemaking purposes so that it does not affect CP&L's retail electric rates and charges. Provided, to the extent CP&L demonstrates that Formation generates savings, CP&L may seek cost recovery through utility rates of any acquisition premium not to exceed the level of such savings.

34. None of CP&L's South Carolina retail electric rates shall be increased above the level in effect as of the date of an order approving the Application until after December 31, 2005, except for the following reasons: (1) annual fuel cost adjustment proceedings pursuant to S.C. Code Ann. § 58-27-865; (2) to reflect the financial impact of governmental action (legislative, executive or regulatory) having a substantial specific impact on the electric industry generally or on a segment thereof that includes CP&L, including but not limited to major expenditures for environmental compliance; or (3) to reflect the financial impact of major expenditures associated with force majeure. For purposes of this condition, the term force majeure means an occurrence that is beyond the control of CP&L and not attributable to its fault or negligence. Without limiting the foregoing, force majeure includes acts of nature, like earthquakes, cyclones, rain, tornadoes, hurricanes, flood, fire; acts of public enemy; war; riots; strikes; mobilization; labor disputes; civil disorders; injunctions,

interventions or acts, or failures or refusals to act, by government authority; and other similar occurrences beyond the control of CP&L which CP&L is unable to prevent by exercising reasonable diligence. To qualify as an exception, a force majeure event must be reported in writing by CP&L to the SCPSC, within thirty days of the last day of such force majeure event. Any request for such an exception shall include a specification of the reasons for the request and an accurate quantification of the financial impact of the request. In addition, CP&L shall not file for any cost deferral from the date of an order approving the Application until after December 31, 2005, except for major expenditures to restore or replace property damaged or destroyed by force majeure.

35. Neither CP&L nor any of its Affiliates shall begin the construction of natural gas facilities in North or South Carolina, including a pipeline, to serve an electric generating plant in North or South Carolina without CP&L filing advance notice of its intent with the Commission. The notice shall be filed well in advance of any construction-related activity, including the acquisition of new rights-of-way or the dedication of any of CP&L's then-existing rights-of-way. The notice shall incorporate details with respect to any proposed pipeline routing and specifications related to any new or expanded natural gas facilities needed to provide gas and/or transportation service to the proposed electric generating plant as well as details regarding the plant itself, including the expected cost, operating characteristics and purpose. As permitted by South Carolina law, the Commission shall retain the full jurisdiction and authority, at any time on its own motion or the request of any interested party with standing, to hold a hearing for review of the effect of any construction of gas pipeline or gas generation facilities by CP&L or its affiliates on CP&L and its utility service and to order any specific ratemaking treatment or modifications to utility service that the Commission deems necessary as a result of its review.

36. CP&L shall determine the appropriate self-built or purchased power resources to be used to provide future generating capacity and energy to its regulated electric customers, including the siting considered appropriate for such resources, on the basis of the benefits and costs of such siting and resources specifically to its regulated electric customers.

37. CP&L shall utilize competitive solicitation procedures to determine future long-term sources of interstate natural gas pipeline capacity and supply for its generation. The

determination of the appropriate source(s) for such interstate pipeline capacity and supply shall be made by CP&L on the basis of the benefits and costs of such source(s) specifically to its regulated electric customers.

38. CP&L shall continue to serve all of its retail customers in South Carolina with the lowest-cost power it can generate with system resources or reasonably procure from other sources in order to meet its native load requirements in accordance with its obligation to provide the lowest cost, reliable service to its retail native load customers before making power from system resources available for off-system sales.

39. CP&L and Holdings affirmatively state and agree that after the approval of CP&L's Application and the Formation, as permitted by South Carolina law, the Commission has and retains the jurisdiction and authority for ratemaking purposes to impute a capital structure, to impute or adjust utility revenues, costs and/or investment, and/or to require any specific ratemaking treatment, as well as to require CP&L to take whatever measures as prescribed by the Commission to insulate ratepayers from any risk or harm and/or to share with ratepayers the benefits of the Formation or any other transaction (including, but not limited to, mergers and other business combinations, the establishment, acquisition, sale or abandonment of businesses, issuances of securities, corporate restructurings, etc.) by CP&L, Holdings and/or any affiliate or subsidiary.

Holding Company Conditions

CP&L represents that the following conditions ensure that the South Carolina Public Service Commission does not lose any jurisdiction with regard to: (1) the establishment of just, fair and reasonable rates to be charged to CP&L's South Carolina retail customers; or (2) the determination of the just, reasonable and prudent costs at which goods/services are exchanged between CP&L and its affiliates.

40. With respect to any transaction that is subject to Section 13 of the Public Utility Holding Company Act of 1935, the following procedures shall apply:

    (a) Holdings and/or CP&L shall not engage in any such transaction without first obtaining from the South Carolina Public Service Commission (SCPSC) such authority as is required under South Carolina law in connection with the acceptance

of the contract that memorializes such transaction and authorization of the payment of compensation or fees pursuant thereto. The proposed contract shall be submitted to the Commission Staff and the Consumer Advocate for informal review within 5 days of such contract being provided to the SEC.

(b) Any such contract shall provide that CP&L:

(i) may not make or incur a charge under any such contract except in accordance with South Carolina law and the rules, regulations and orders of the SCPSC promulgated thereunder; and

(ii) may not seek to reflect in rates any cost incurred or revenue level earned under an agreement subject to the 1935 Act to the extent disallowed by the SCPSC.

(c) The SEC shall have found that such contract is not inconsistent with the 1935 Act except that no such finding by the SEC shall be required if no SEC approval of such contract is required under the 1935 Act.

41. Neither Holdings, CP&L, nor any Affiliate of Holdings, shall assert in any forum, with respect to any transaction to which Holdings is a party and which is subject to Section 13 of the 1935 Act, that the 1935 Act in any way preempts the SCPSC from reviewing the reasonableness of any commitment entered into by CP&L and disallowing costs of or imputing revenues to CP&L. Should any other entity so assert, Holdings, CP&L, or any affiliate of CP&L or Holdings shall not support any such assertion and shall, upon learning of such assertion, so advise and consult with the SCPSC and the Consumer Advocate regarding such assertion.

42. Holdings and CP&L shall request the SEC to include the following language in any order issued approving the proposed holding company structure for CP&L whereby CP&L becomes a subsidiary of Holdings :

Approval of this application in no way precludes the South Carolina Public Service Commission from scrutinizing and disallowing charges incurred or made or allowing or imputing a different level of such charges when setting rates for services rendered to customers of affiliate public utilities.

43. CP&L shall not take any service from an Affiliate under circumstances where its cost incurred for that service (whether directly or through allocation) exceeds the lower of the Affiliate's fully distributed cost or fair market value.

DOCKET NO. 1999-434-E/C
APPLICATION TO TRANSFER OWNERSHIP TO A HOLDING COMPANY

44. With respect to the voluntary transfer by CP&L to nonpublic utility operations, an Affiliate (including Holdings), and/or a non-Affiliate, of the control or ownership of any asset or portion thereof used for the generation, transmission, distribution, or other provision of electric power and/or service to customers in South Carolina:

    (a) CP&L and Holdings shall not commit to or carry out such a transfer except in accordance with the Revised Code of Conduct, South Carolina law and the rules, regulations and orders of the SCPSC promulgated thereunder; and

    (b) CP&L may not reflect in rates the value of any such transfer subject to the 1935 Act except as allowed by the SCPSC.

45. CP&L and Holdings shall include in their application for approval filed with the SEC pursuant to the 1935 Act the commitment set forth in paragraph 44 above.

46. CP&L and Holdings shall include in their application for approval filed with the SEC pursuant to the 1935 Act a request that the SEC include the following statement in its approval order(s):

    > Holdings and CP&L recognize that the SCPSC wishes to preserve its state law authority under present or future state law, to require approval of transfers of control or ownership of any asset or portion thereof from CP&L to one or more nonpublic utility operations, or other Affiliates, or non-Affiliates. Notwithstanding the reservation of CP&L's and Holdings' rights to assert that the SCPSC does not and should not have authority, Holdings and CP&L request the SEC to state, in its order approving the instant application, that the SEC does not intend its approval of the application to preclude a future state commission order mandating or otherwise exercising state authority over such a transfer of assets.

47. Any filing with the SEC in connection with asset transfers involving Holdings, CP&L or any Affiliates shall request that the SEC include the following language in its approval order(s):

    Approval of this application in no way precludes the South Carolina Service Commission from scrutinizing and establishing the value of the asset transfer for purposes of determining the rates for services rendered to CP&L's customers. It is the SEC's intention that the South Carolina Public Service Commission retain the right to review and determine the value of such asset transfer for purposes of determining rates.

48. Neither CP&L, Holdings or any Affiliate thereof shall assert in any forum, with respect to any asset transfer transaction to which any of these entities is a party and which is subject

to the 1935 Act, that the 1935 Act in any way preempts the SCPSC from (a) exercising such authority as it may have under South Carolina law to mandate, approve or otherwise regulate a transfer of assets by or to CP&L, or (b) scrutinizing and establishing the value of the asset transfer for purposes of determining the rates for services rendered to CP&L's South Carolina retail customers. Should any other entity so assert, CP&L, Holdings or an affiliate shall not support any such assertion and shall, upon learning of such assertion, so advise and consult with the SCPSC, the Consumer Advocate regarding such assertion.

49. With respect to any financing transaction entered into by or among CP&L and its Affiliates (including Holdings), any contract memorializing such transaction shall provide that CP&L:

(a) may not enter into any such financing transaction except in accordance with the Revised Code of Conduct, South Carolina law and the rules, regulations and orders of the SCPSC promulgated thereunder, and

(b) CP&L may not reflect in rates the effect of any capital structure or debt and/or equity costs except as allowed by the SCPSC.

50. Holdings and CP&L shall include in their application for approval of the acquisition filed with the SEC pursuant to the 1935 Act a request that the SEC include the following statement in its approval order(s):

The SEC further finds that its approval of this acquisition or future financing arrangements does not preclude the SCPSC or other regulatory authority from setting rates based on the assumption of a capital structure, a corporate structure, debt costs or equity costs that varies from the structure(s) or cost(s) approved in this Order.

51 Neither CP&L, Holdings or any Affiliate thereof shall assert in any forum, with respect to any financing transaction to which any of these entities is a party and which is subject to the 1935 Act, that the 1935 Act in any way preempts the SCPSC from exerting any lawful authority it may have over such financings or that the SCPSC is precluded from setting rates based on the capital structure, corporate structure, debt costs, or equity costs that it finds to be appropriate for ratemaking purposes. Should any other entity so assert, CP&L, Holdings or an Affiliate shall not support any such assertion and shall, upon learning of such assertion so advise and consult with the SCPSC, the Consumer Advocate regarding such assertion.

52. With respect to the above described Affiliate transactions, asset transfers, and financings, CP&L, Holdings and their Affiliates shall bear the full risk of any preemptive effects of the 1935 Act. The previous sentence includes, but is not limited to, agreement by CP&L, Holdings and their Affiliates to take all such actions as may be reasonably necessary and appropriate to hold South Carolina ratepayers harmless from rate increases, foregone

opportunities for rate decreases or other effects of such preemption. Such actions, include, but are not limited to, filing with and obtaining approval from the SEC of such commitments as the SCPSC deems reasonably necessary to prevent such preemptive effects.

REVISED CODE OF CONDUCT GOVERNING THE RELATIONSHIP AMONG CAROLINA POWER & LIGHT COMPANY NORTH CAROLINA NATURAL GAS CORPORATION THEIR AFFILIATES AND THEIR NONPUBLIC UTILITY OPERATIONS

REVISED JANUARY 25, 2000 to recognize the application by Carolina Power & Light Company and InterPath Communications, Inc. to transfer ownership of Carolina Power & light Company and InterPath Communications, Inc. to a registered Holding Company.

I. Definitions

For purposes of this Code of Conduct and the South Carolina Regulatory Conditions the terms listed below shall have the following definitions:

Affiliate: Any company or subsidiary, ten percent (10%) or more of the outstanding voting securities of which are owned, controlled, or held with power to vote, directly or indirectly, by Carolina Power & Light Company, North Carolina Gas Corporation, InterPath Communications, Inc. by these or any other names, CP&L Holdings and all successors or owners or beneficial owners, direct or indirect, of CP&L Holdings.

Commission: The South Carolina Public Service Commission.

CP&L: The public utility operations of Carolina Power & Light Company as defined in S.C. Code Ann. § 58-27-10.

CP&L Holdings, Inc.: CP&L Holdings, Inc., or Holdings, and any subsequent or successor owners or beneficial owners, direct or indirect, of CP&L Holdings, Inc.

Consumer Advocate: The Consumer Advocate for the State of South Carolina.

Customer: Any retail electric customer of CP&L located within CP&L's electric service territory and any natural gas sales or natural gas transportation customer of NCNG located within NCNG's franchised service area.

Customer Information: Any and all customer specific information obtained by CP&L and/or NCNG.

Electric Services: Commission-regulated electric energy sales, generation, transmission, distribution and/or delivery, and other related services, including but not limited to, metering and billing.

Fully Distributed Costs: All direct and indirect costs, including overheads and the cost of capital, incurred in providing the goods and services in question.

Gas Marketing Affiliate: An affiliate or nonpublic utility operation of NCNG or CP&L engaged in the unregulated sale, arrangement, brokering or management of gas supply, pipeline capacity, or gas storage.

Gas Marketing Affiliate Personnel: An employee or other representative of the gas marketing affiliate that is involved in fulfilling the business purpose of the marketing affiliate. An officer or director of both NCNG and gas marketing affiliate shall not be considered gas marketing affiliate personnel unless that individual is directly involved in fulfilling the business purpose of the gas marketing affiliate.

InterPath: InterPath Communications, Inc.

Natural Gas Services: Natural gas sales and natural gas transportation regulated by the North Carolina Utilities Commission, the South Carolina Public Service Commission or the Federal Energy Regulatory Commission, and other related services, including, but not limited to, metering and billing.

NCNG: the public utility operations of North Carolina Natural Gas Corporation as defined in N.C.G.S. § 62-3.

NCNG Operating Personnel: An employee or other representative of NCNG that is involved in the acquisition, marketing, pricing, or scheduling of gas supply, interstate pipeline capacity, or gas storage facilities on behalf of NCNG. NCNG operating personnel also includes personnel involved in managing NCNG's facilities or responsible for determining which customers to curtail, or involved in selling products and services to NCNG's customers eligible to purchase gas, products, and services from persons other than NCNG.

Non-affiliated Gas Marketing: an entity, not affiliated with NCNG or CP&L, engaged in the unregulated sale, arrangement, brokering or management of gas supply, pipeline capacity, or gas storage.

Nonpublic Utility Operations: All activities engaged in by CP&L and/or NCNG and/ or InterPath Communications, Inc. and/or Holdings and/or affiliate involving the sale of a good or service that is not regulated by the South Carolina Public Service Commission, or the North Carolina Utilities Commission, or the Federal Energy Regulatory Commission, or the Federal Communications Commission.

Services Company: A subsidiary of Holdings that provides services to utilities and/or affiliates.

Shipper: A gas marketing affiliate, non-affiliated marketer, a municipal gas customer, or end-use of gas.

Similarly Situated: Possessing comparable characteristics, such as, the type and delivered price of alternative fuel used, gas curtailment priority, daily usage and daily load swing or relevant Standard Industrial Classification.

Utilities: the public utility operations of CP&L, NCNG, InterPath, and any future public utility company acquisitions.

II. Code of Conduct

This Revised Code of Conduct, while not wholly inclusive or totally encompassing, establishes the minimum guidelines and rules that apply to transactions involving: one or more of the Utilities and Holdings; one or more of the Utilities and an Affiliate; one or more of the Utilities and a Non-Public Utility operation. This Revised Code of Conduct will become applicable on the date it is approved by the Commission.

A. GENERAL STANDARDS

1. Equal Treatment - CP&L and NCNG shall not show any preference to: customers of their affiliates; requests for service from affiliates; and/or customers of their nonpublic utility operations, as compared to non-affiliated entities and their customers.

2. Cross-subsidies involving either or both CP&L and/or NCNG, and one or more of their affiliates and/or one or more of their nonpublic utility operations are prohibited.

3. Separation - CP&L, NCNG, and their affiliates shall operate independently of each other (except for sharing of services under Section II.D.3.). CP&L, NCNG, and each of their affiliates shall maintain separate books and records. CP&L's and NCNG's nonpublic utility operations shall maintain separate records to ensure appropriate cost allocations and any requirements of arm's length transactions. CP&L and its affiliates shall conduct business from physically separate offices located on different floors or in different buildings. However, CP&L and its affiliates may share offices to the extent necessary to perform those shared corporate functions permitted under Section II.D.3 of this Code of Conduct.

4. Disclosure - Upon request, CP&L shall provide electric Customer Information to NCNG, CP&L's affiliates and nonpublic utility operations under the same terms and conditions that such information is provided to non-affiliates. Upon request, NCNG shall provide natural gas Customer Information to CP&L, NCNG affiliates and nonpublic utility operation under the same terms and conditions that such information is provided to all non-affiliates. Customer Information shall not be disclosed to any person or company without the Customers' consent except to the extent provided for in Section II.D.3. If disclosed, it must be done with advance public notification, in a manner determined by the Commission to ensure that the opportunity to receive the disclosed information is made available to non-affiliates at the same time that it is made available to affiliates and/or nonpublic utility operations. Notwithstanding the prohibitions established by this subsection, NCNG may disclose Customer Information to CP&L and/or a Services Company

without Customer consent and without making the information available to any other person or company in order to allow CP&L and/or a Services Company to perform billing services for NCNG. Such Customer Information shall only be disclosed to those CP&L and/or a Services Company employees performing billing operations and shall be stored in such a manner that only employees in CP&L's and/or a Services Company's Customer Service Department who are responsible for responding to customer inquiries concerning customer service and billing matters may access the information.

B. NONDISCRIMINATION AND INFORMATION STANDARDS

1. CP&L and NCNG shall process all similar requests for Electric Services and/or Natural Gas Services in the same timely manner, whether requested on behalf of an affiliate, nonpublic utility operations or non-affiliated entity. CP&L and NCNG shall apply the provisions of their tariffs equally to affiliates, nonpublic utility operations and non-affiliates.

2. CP&L will not represent to any Customer that any affiliate and/or nonpublic utility operation will receive any preference from CP&L relative to providing Electric Services over any unaffiliated service provider, nor will CP&L provide its affiliates with any preference in the provision of Electric Services. NCNG will not represent to any Customer that any affiliate and/or nonpublic utility operation will receive any preference from NCNG relative to providing natural gas services, nor will NCNG provide its affiliate and/or nonpublic utility operations with any preference over non-affiliates in the provision of Natural Gas Services.

3. CP&L and NCNG shall not condition or otherwise tie the provision or terms of any Electric Services or Natural Gas Services to the purchasing of any goods or services from the other or from an affiliate and/or from their nonpublic utility operations.

4. When any CP&L and/or NCNG employee receives a request for information from or provides information to a Customer about an affiliate and/or nonpublic utility operation service, the employee must advise the Customer that such services may also be available from non-affiliated suppliers.

C. MARKETING STANDARDS

1. CP&L, NCNG, their affiliates and their nonpublic utility operations may engage in joint sales, joint sales calls, joint proposals and/or joint advertising, subject to any conditions or restrictions that the Commission may hereafter establish, provided CP&L and NCNG agree to engage in similar activities with non-affiliates under the same terms and conditions. However, CP&L, NCNG and gas marketing affiliate collectively may not engage in joint sales, joint sales call, joint proposals and/or joint advertising and NCNG operating personnel must not provide sales leads to its gas marketing affiliate. CP&L and/or NCNG shall post certain information regarding the joint marketing programs/calls on its Internet web site at least 14 days prior to commencing a joint marketing arrangement and the information shall remain posted on the web site for the duration of the arrangement. The information disclosed on the web site shall include a description and terms for the joint marketing arrangement. Posting of the terms for the joint marketing arrangement shall include an offer by CP&L and/or NCNG to engage in joint marketing on such terms with non-affiliates.

2. Affiliates may not use CP&L's and/or NCNG's name and/or logo in any communications unless a disclaimer is included that states the following:

   (a) "[Affiliate] is not the same company as [Utility], and [Affiliate] has separate management and separate employees;"

   (b) "[Affiliate] is not regulated by the South Carolina Public Service Commission or in any way sanctioned by the Commission;"

   (c) "purchasers of products or services from [Affiliate] will receive no special treatment from [Utility]"; and

   (d) "a customer does not have to buy products or services from [Affiliate] in order to continue to receive the same safe and reliable electric (or natural gas) service from [utility]."

   Nonpublic utility operations may not use CP&L's and/or NCNG's name and/or logo in any communications unless a disclaimer is included that states the following:

   (a) "[Nonpublic utility operation] is not part of the regulated services offered by [Utility] and is not any way sanctioned by the South Carolina Public Service Commission;"

   (b) "purchasers of products or services from [Non-Public utility operations] will receive no special treatment from [Utility]"; and

   (c) "a customer does not have to buy products or services from [Nonpublic utility operation] in order to continue to receive the same safe and reliable electric (or natural gas) service from [utility]."

The required disclaimer must be sized and displayed in a way that is commensurate with the name and/or logo so that the disclaimer is no smaller than the larger of one-half the size of the type that first displays the name and logo or the predominant type used in the communication.

3. Personnel of an affiliate or nonpublic utility operation shall not give the appearance that the affiliate or nonpublic utility operation speaks on behalf of CP&L and/or NCNG.

4. Personnel of CP&L, NCNG, an affiliate or nonpublic utility operation shall not indicate to a third party that any preference exists as the result of that third party dealing with an affiliate or nonpublic utility operation as compared with a non-affiliate.

5. Notwithstanding these provisions, if an affiliate or non-public utility operation uses CP&L's and/or NCNG's name and/or logo, the Commission may determine in a rate proceeding whether or not compensation should be paid for such use. If, after hearing, the Commission determines that compensation should be paid, it may impute appropriate compensation to the revenues of CP&L and/or NCNG.

D. COST ALLOCATION AND TRANSFER PRICING STANDARDS

1. As general guideline, with regard to the transfer prices charged for goods and services, including the use and/or transfer of personnel, exchanged between and among CP&L, NCNG, their affiliates and their nonpublic utility operations, the following conditions shall apply:

   a) For untariffed goods and/or services provided by CP&L and/or NCNG to an affiliate and/or nonpublic utility operation, the transfer price shall be the higher of market value or fully distributed cost.

   b) For goods and/or services provided by an affiliate and/or nonpublic utility operation to CP&L and/or NCNG, the transfer price shall be the lower of market value or the affiliate's and/or nonpublic utility operation's fully distributed cost. If the public utility does not engage in competitive solicitation and instead obtains the goods and/or services from an affiliate and/or nonpublic utility operation, the public utility shall implement adequate safeguards to ensure utility customers receive service at the lowest cost in each case.

   c) With the exception of gas supply and/or transportation, transactions between CP&L and NCNG for untariffed goods and/or services shall be priced at the lower of fully distributed costs or market value.

   d) For gas sales and/or transportation service transactions between CP&L and NCNG, NCNG shall provide service to CP&L at the same price and terms that are made available to other similarly situated customers.

2. All permitted transactions between CP&L, NCNG, the affiliates, and nonpublic utility operations shall be recorded and accounted for in accordance with CP&L's cost allocation manual.

3. Holdings, CP&L, NCNG, the affiliates and the nonpublic utility operations may use certain corporate services and functions on a joint basis. Such shared services shall be charged among Holdings, CP&L, NCNG, the affiliates and nonpublic operations. Shared services shall be those proposed by CP&L on or before December 31, 1999, subject to approval by the Commission.

4. CP&L and NCNG may participate with each other in joint purchase of goods and services. All joint purchases, including leases, shall be priced in a manner that permits clear identification of CP&L's and NCNG's portions of such purchases or leases. CP&L and NCNG shall not engage in joint purchases with affiliates and/or nonpublic utility operations, unless specifically permitted in advance by Commission order upon a finding that it is in the best interest of ratepayers.

5. Any costs CP&L or NCNG incurs in assembling, compiling, preparing and/or furnishing requested customer information to an affiliate, nonpublic utility operation or non-affiliates shall be recovered from the requesting party pursuant to Section II.D. I of this Code of Conduct.

6. Any technology or trade secrets developed by CP&L and/or NCNG will not be transferred to any of CP&L's and/or NCNG's affiliates and/or nonpublic utility operations without just compensation from the affiliate and/or nonpublic utility operation, and the filing of notice with the Commission at least 60 days prior to the transfer. For purposes of this agreement "just compensation" means fair market value.

7. CP&L and NCNG shall receive compensation from its affiliates and nonpublic utility operations for tangible benefits, if appropriate.

8. The Consumer Advocate specifically reserves the right to assert, in any rate proceeding, that CP&L's ratepayers should receive a reasonable share of any tax benefits derived from the filing of a consolidated tax return.

E. REGULATORY OVERSIGHT

1. S.C. Code Ann. § 58-27-2090 (Supp. 1999), as amended shall apply.

2. The books and records and contracts of Holdings, CP&L and NCNG, their affiliates and nonpublic utility operations shall be open for examination by the Commission and its staff, and the Consumer Advocate.

3. If NCNG supplies any of the Natural Gas Services used by CP&L to generate electricity, CP&L shall file an annual report with the Commission demonstrating that each purchase was prudent and the price was reasonable.

4. When requested, NCNG shall disclose on a confidential basis to non-affiliated electricity generators on its system and the Consumer Advocate the gas supply and transportation prices, characteristics, and other terms of service for gas deliveries to CP&L for electric generation.

5. All gas supply and/or transportation arrangements between NCNG and CP&L of more than two months shall be filed with the Commission in advance.

F. COMPLAINT PROCEDURE

COMPLAINT PROCEDURE – CP&L and NCNG shall establish complaint procedures to resolve potential complaints that arise due to the relationship of CP&L and/or NCNG with their affiliates and/or nonpublic utility operations. These complaint procedures do not affect a complainant's right to file a formal complaint with or otherwise address questions to the Commission. The complaint procedures shall provide for the following:

1. Verbal and written complaints shall be referred to a designated representative of NCNG and/or CP&L.

2. The designated representative shall provide written notification to the complainant within 15 days that the complaint has been received.

3. CP&L and/or NCNG shall investigate the complaint and communicate the results of the investigation to the complainant within 60 days of receiving the complaint.

4. CP&L and/or NCNG shall maintain a log of complaints and related records for inspection by the Commission and its staff.

5. If the complainant is not satisfied, CP&L and/or NCNG shall inform the Commission and its Staff of the complaint.

G. **UTILITY BILLING FORMAT**– To the extent CP&L includes on a customer's electricity bill charges for Natural Gas Services and/or unregulated services, such charges shall be separated from all regulated Electricity Services charges and contain the following introductory notice in bold print: **Your natural gas service may not be terminated for failure to pay for your electricity service and your electricity may not be terminated for failure to pay for your natural gas service. Neither your regulated natural gas services, nor your regulated electric services can be terminated for failure to pay for the following unregulated services.**

H. **NATURAL GAS/ELECTRICITY COMPETITION** – CP&L and NCNG shall continue to compete to serve those retail customer needs that can be met by both electricity and natural gas. If the electric generation industry is deregulated, CP&L will not promote one fuel over the other in those areas where it competes with NCNG or another affiliate.

I. **NATURAL GAS MARKETING STANDARDS**

1. NCNG shall treat similarly situated shippers in the same manner with respect to the delivery of gas on distribution facilities, contract terms, the scheduling of gas supplies, balancing provisions, and allocation of gas supplies and capacity at city gate stations.

2. All NCNG information pertaining to interstate pipeline transportation, storage, distribution, or gas supply that is provided to a gas marketing affiliate shall be made available to all shippers on a contemporaneous, nondiscriminatory and non-preferential basis by posting the information on NCNG's Internet web site and provided in a written form upon the request of a shipper. Aggregate customer information and market data made available to shippers shall be made available on a similar basis.

3. NCNG shall not disclose information provided by non-affiliated marketers and customers to its marketing affiliate, unless such parties specifically authorize disclosure of the information.

4. A gas marketing affiliate shall function independently of NCNG and gas marketing affiliate personnel must be located in a facility that is physically separate from that used by the NCNG operating personnel performing similar functions.

5. NCNG operating personnel may not perform any of the following functions on behalf of a gas marketing affiliate:

   a) Purchase gas, pipeline capacity or storage capacity.

   b) Market or sell gas and related services.

   c) Price or administer products and services.

   d) Hire and/or train marketing affiliate personnel.

   e) Offer consulting services regarding gas functions.

6. An individual may be an officer or director of both NCNG and a gas marketing affiliate provided that the individual does not obtain or use knowledge of market-sensitive information for more than one of the entities. NCNG shall post on its Internet web site the identity, job title and responsibilities for each officer or director that falls with in the definition of NCNG operating personnel.

7. NCNG shall post its criteria for evaluating proposals from shippers on its Internet web site. NCNG shall not give one shipper any form of preference over other similarly situated shippers in matters relating to assignment, release, or other transfer of capacity rights on interstate pipeline systems.

8. NCNG shall post on its Internet web site a current list of contact persons and telephone numbers of all gas marketers that are active on its system.