

SETTLEMENT AGREEMENT

The Settlement Agreement (“Settlement Agreement”) is made by and among the South Carolina Office of Regulatory Staff (“ORS”), Duke Energy Corporation (Duke Energy), Progress Energy, Inc. (Progress Energy), and their public utility subsidiaries, Duke Energy Carolinas, LLC (“DEC”), and Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc. (“PEC”), (collectively referred to as the “Parties” or sometimes individually as “Party”) and is effective Sept. 6, 2011 (insert date).

WHEREAS, on April 25, 2011, Duke Energy and Progress Energy on behalf of their public utility subsidiaries, DEC and PEC, filed an Application to Engage in a Business Combination Transaction (the “Application”) with the Public Service Commission of South Carolina (“Commission”) seeking approval of their decision to establish a Joint Dispatch Agreement (“JDA”) and for pre-approval of the merger of their public utility subsidiaries, DEC and PEC, in light of the merger of Duke Energy and Progress Energy;

WHEREAS, the Public Service Commission of South Carolina (the “Commission”) opened two dockets to consider the Application, Docket Nos. 2011-158-E and 2011-68-E;

WHEREAS, on April 4, 2011, Duke Energy and Progress Energy filed with the North Carolina Utilities Commission (“NCUC”) an Application of Duke Energy Corporation and Progress Energy, Inc. to Engage in a Business Combination Transaction and Address Regulatory Conditions and Codes of Conduct, Docket Nos. E-7, Sub 986 and E-2, Sub 998;

WHEREAS, the Parties to this Settlement Agreement are parties of record in the above-referenced dockets pending before the NCUC and the Commission;

WHEREAS, ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (Supp. 2010);

WHEREAS, ORS has conducted an investigation and examination relative to the matters raised in the Applications filed with the NCUC and the Commission;

WHEREAS, the Parties have varying positions regarding the issues in these cases;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of some or all of the issues would be in their best interests and, in the case of ORS, in the public interest;

WHEREAS, following those discussions, the Parties have determined that their interests, and ORS has determined that the public interest, would be best served by stipulating to a comprehensive settlement of all issues pending in Docket Nos. E-7, Sub 986 and E-2, Sub 998 before the NCUC under the terms and conditions set forth herein; and

WHEREAS, the Parties to this Agreement believe that it is in their best interests and those of the State of South Carolina to enter into a Settlement Agreement relating to this matter to avoid the additional expense which the litigation of their positions would occasion in Docket Nos. E-7, Sub 986 and E-2, Sub 998.

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms:

I. COMPREHENSIVE SETTLEMENT OF DOCKET NOS. E-7, SUB 986 AND E-2, SUB 998

For purposes of this Settlement Agreement and in recognition of the mutual compromises contained herein, Duke Energy, Progress Energy, DEC, PEC, and ORS further agree to the following:

Fuel and Joint Dispatch Savings

1. DEC and PEC will guarantee that their South Carolina retail customers receive either through their respective fuel clause mechanisms or through base rates their allocable shares of \$650 million in system savings to be achieved over the first five years following the closing of the merger. It is anticipated that less than five (5) % of the joint dispatch savings which are related to non-fuel Operation & Maintenance (“O&M”) could potentially be received by South Carolina retail customers through base rates if mutually agreed upon by the Parties and approved by the Commission.

2. The savings realized through the implementation of the Joint Dispatch Agreement will be determined in the manner identified in the Joint Dispatch Agreement for the calculation and sharing of such savings between PEC and DEC.

3. With regard to savings created through fuel procurement, fuel transportation procurement and greater coordination of natural gas usage, PEC and DEC shall propose the methodologies for the determination of such savings. ORS shall review the reasonableness of such methodologies and recommend any necessary changes.

4. With regard to savings realized through coal blending by DEC, these savings will be determined by multiplying the number of mmbtus of non-traditional coal burned by DEC during the test period by the difference between the delivered price per mmbtu of traditional coal minus the delivered price per mmbtu of the non-traditional coal actually burned. The term “non-traditional coal” is defined for this purpose as coal not being purchased at the time of the merger announcement and “traditional coal” is defined as Central Appalachia coal with the following characteristics: 12,500 btu/lb, 13.5% ash and 1.6# SO₂/MMBtu.

5. The coal procurement savings, transportation savings, natural gas usage savings and the coal blending savings will be allocated between DEC and PEC in the same proportion as the joint dispatch savings.

6. Any disagreements regarding the savings or the methodologies shall be addressed in the respective annual fuel proceedings.

Community Support and Other Contributions

7. DEC and PEC will provide community support and charitable contributions for four years at a level no less than \$1,866,864 and \$788,000, respectively, based on the average of each company's contributions over the past five years (2006 – 2010).

8. DEC and PEC will contribute a total of \$3.75 million dollars, to be distributed as mutually agreed upon by ORS and DEC and PEC, for purposes such as workforce development and low income energy assistance in the first year following the closing of the merger. The \$3.75 million will be allocated between DEC's and PEC's South Carolina service territories in proportion to the number of South Carolina retail customers served by each.

Non-fuel Operation & Maintenance Savings

9. DEC and PEC assert that “[s]avings realized from merger integration activities in the test years for . . . general rate cases will help offset such rate increases.” In any rate cases filed before December 31, 2014, in which DEC or PEC seeks to recover merger costs to achieve savings, DEC and PEC must show that such costs resulted in quantifiable cost savings as reflected in a lower revenue requirement to their respective South Carolina retail customers greater than the revenue requirement effect of the inclusion of these costs in base rates. ORS,

at that time, may raise any issues concerning such costs, and may oppose inclusion of such costs.

Costs to Achieve Merger Savings

10. Direct expenses associated with costs to achieve the merger shall be excluded from retail cost of service for ratemaking purposes.

11. The Parties agree with respect to capital costs and severance costs, as more fully defined below, that the Public Service Commission of South Carolina shall be the ultimate decision maker as to whether the capital and severance costs should be included or excluded in any general rate case filed before December 31, 2014. DEC and PEC may request recovery of such costs, and ORS, at that time, may raise any issues concerning such costs, and may oppose inclusion of such costs.

12. With respect to capital costs, such as system integration costs (much of them associated with Information Technology) associated with costs to achieve merger savings, DEC and PEC may request recovery through amortization in their next rate cases filed before December 31, 2014. In order to justify such cost recovery, DEC and PEC must show that these capital costs resulted in quantifiable cost savings to their respective South Carolina retail customers greater than the revenue requirement effect of the inclusion of these costs in base rates.

13. ORS opposes the inclusion of severance costs in cost of service for ratemaking purposes. But DEC and PEC will have the right to request recovery of severance costs through amortization in a general rate case filed before December 31, 2014, upon a showing that these

costs resulted in labor cost savings greater than the severance costs during the test period. ORS will have the right to oppose such recovery.

Most Favored Nations

14. PEC and DEC agree to provide their respective South Carolina retail customers the jurisdictional equivalent benefits (including regulatory conditions as mutually agreed upon) to that provided to PEC's and DEC's North Carolina retail customers. Application of this methodology is intended to ensure that South Carolina retail customers receive the benefit of a "Most Favored Nation" status with regard to the sharing of net merger savings. In no event will the application of the methodology cause South Carolina retail customers' share of net merger savings to be reduced.

Regulatory Conditions

15. The Parties agree that the regulatory conditions set forth in Appendix A to this Settlement Agreement shall apply to Duke Energy, Progress Energy, DEC and PEC in mutual consideration of the settlement of all issues in Docket Nos. E-7, Sub 986 and E-2, Sub 998.

The Joint Dispatch Agreement

16. ORS will address all issues related to the JDA before the Commission. Except as provided for in Paragraph 2 of this Settlement Agreement, the Parties agree and acknowledge that this Settlement Agreement does not bar ORS from raising issues related to the JDA before the Commission.

II. REMAINING TERMS AND CONDITIONS

1. The Parties further agree to cooperate in good faith with one another in recommending in any annual fuel proceeding or general rate case to the Commission that the results occasioned by this Settlement Agreement be accepted and approved by the Commission.

2. This Settlement Agreement shall be interpreted according to South Carolina law.

3. The above terms and conditions fully represent the agreement of the Parties hereto.

Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]

Representing the South Carolina Office of Regulatory Staff

A handwritten signature in cursive script, reading "Nanette S. Edwards", is written over a horizontal line.

Nanette S. Edwards, Esquire

Courtney Edwards, Esquire

Office of Regulatory Staff

1401 Main Street, Suite 900

Columbia, SC 29201

Phone: (803) 737-0823

Fax: (803) 737-0895

Email: nsedwards@regstaff.sc.gov

cedwards@regstaff.sc.gov

**Representing Duke Energy Corporation and
Duke Energy Carolinas, LLC**

A handwritten signature in black ink, reading "Kodwo Ghartey-Tagoe", written over a horizontal line.

Kodwo Ghartey-Tagoe

Vice-President - Legal

Duke Energy Carolinas, LLC

550 South Tryon Street

MailCode DEC45A - Law Department

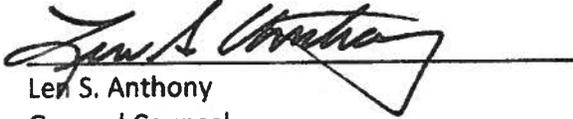
Charlotte, North Carolina 28202

Phone: (704) 382-4295

Fax: (704) 382-5690

Email: kodwo.ghartey-tagoe@duke-energy.com

**Representing Progress Energy, Inc. and
Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc.**



Len S. Anthony
General Counsel

Progress Energy Carolinas, Inc.

Post Office Box 1551/PEB 17A4

Raleigh, North Carolina 28202

Phone: (919) 546-6367

Fax: (919) 546-2694

Email: len.s.anthony@pgnmail.com