TORTOISE POWER & ENERGY INFRASTRUCTURE FUND INC
Form N-CSR
January 24, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-22106

Tortoise Power and Energy Infrastructure Fund, Inc.
(Exact name of registrant as specified in charter)

11550 Ash Street, Suite 300, Leawood, KS 66211
(Address of principal executive offices) (Zip code)

David J. Schulte
11550 Ash Street, Suite 300, Leawood, KS 66211
(Name and address of agent for service)

913-981-1020
Registrant's telephone number, including area code

Date of fiscal year end: November 30

Date of reporting period: November 30, 2011

Item 1. Report to Stockholders.

Company at a Glance

Tortoise Power and Energy Infrastructure Fund, Inc. (NYSE: TPZ) invests in a portfolio of fixed income and equity securities issued by power and energy infrastructure companies. The Fund s goal is to provide stockholders a high level of current income, with a secondary objective of capital appreciation. The Fund seeks to invest in a portfolio of companies that provide stable and defensive characteristics throughout economic cycles.

Infrastructure Asset Class

Increasingly, institutions have allocated a portion of their investment portfolio to infrastructure due to its desirable investment characteristics, which include:

- Long-term stable asset class with low historical volatility
- Attractive risk-adjusted returns
- Investment diversification through low historical correlation with other asset classes
- A potential inflation hedge through equity investments

For Investors Seeking

- A fund which invests in the historically stable and defensive power and energy infrastructure sectors
- Monthly distributions
- Fund invested in fixed income securities with low volatility and more safety as well as MLPs for growth
- One Form 1099 per stockholder at the end of the year, thus avoiding multiple K-1s and multiple state filings related to individual MLP partnership investments

Power and Energy Infrastructure Operations

At the heart of the infrastructure asset class is power and energy infrastructure, illustrated in the box below:

Power Infrastructure The ownership and operation of asset systems that provide electric generation (including renewable energy), transmission and distribution.

Energy Infrastructure The ownership and operation of a network of pipeline assets to transport, store, gather, and/or process crude oil, refined petroleum products, natural gas or natural gas liquids (including renewable energy).

January 12, 2012

Dear Fellow Stockholders,

Our fiscal year ended Nov. 30, 2011 marked a year of memorable headlines in the broader markets. Macroeconomic events such as Eurozone debt concerns, the U.S. sovereign debt downgrade, actions by the Federal Reserve and slower than anticipated economic growth generated short-term volatility across all asset classes. Fortunately, the market recognized quality over longer periods, as evidenced by the performance of power and energy infrastructure companies.

Power and Energy Infrastructure Sector Outlook

The TPZ Benchmark Index*, comprised of a blend of debt and equity securities issued by companies in the power and energy infrastructure sectors, posted a total return of 8.9 percent for the fiscal year ended Nov. 30, 2011, as compared to the S&P 500 total return of 7.8 percent for the same period. While the high yield bond market outperformed the investment grade market during the first half of the year, investment grade bonds posted a stronger second half as investors sought quality amidst general market volatility. Additionally, power and energy infrastructure equities posted a solid return during the year as key business fundamentals remained steady with attractive growth. Capital markets were also supportive of growth, as the sector raised over $80 billion in debt and equity capital during fiscal year 2011.

Domestic power grid modernization continues to drive significant investment opportunities with plans underway in 43 states to install digital smart meters. Additionally, we expect growth opportunities to come as renewable energy sources connect to the existing power grid. The Edison Electric Institute estimates that over $38 billion is needed for transmission infrastructure needs from 2012 to 2014 alone. During the year, large global energy companies continued to make significant investment in North American oil and gas shales. These deals validated the game-changing events taking place in North American energy production and transportation and supported significant pipeline infrastructure investment opportunities.

The Environmental Protection Agency has made progress this year in new rules impacting power generation emission levels. We believe the upcoming regulation should lead to increased natural gas fired generation accompanied by coal generation plant retirements. As companies take steps to comply with the regulation, we expect them to balance reliability and affordability. In 2011, we saw active communication between companies and state regulatory commissions regarding capital plans which have demonstrated the commissions willingness to support investment and think creatively about ratemaking.

The Federal Reserve appears to be committed to keeping interest rates low for the foreseeable future. While the low interest rate environment is attractive for fixed income valuations, we will continue to monitor the market for reinvestment risk stemming from calls or tenders of existing fixed income securities. For equities, we expect midstream energy infrastructure distribution and dividend growth of 6 percent to 8 percent.

Company Performance Review and Outlook

Our total assets increased from $204.1 million on Nov. 30, 2010, to $215.1 million on Nov. 30, 2011, resulting primarily from market appreciation of our investments. Our market-based total return was 0.7 percent and our NAV-based total return was 5.4 percent (both including the reinvestment of distributions) for the fourth fiscal quarter ended Nov. 30, 2011. For fiscal year 2011, our market-based total return was 11.5 percent and our NAV-based total return was 10.2 percent.

During 2011, we paid monthly distributions of $0.125 per share ($1.50 annualized). This represented an annualized yield of 6.2 percent based on our fiscal year closing price of $24.18. Our distribution coverage (distributable cash flow divided by distributions) for the fiscal year was 101 percent. For tax purposes, distributions to stockholders for 2011 were 57 percent ordinary income, 34 percent long-term capital gain and 9 percent return of capital.

During the fiscal year, our power and energy infrastructure fixed income holdings benefited from a continued low interest rate environment and solid business fundamentals. Our performance was also positively impacted by pipeline equities as refined product/crude oil pipeline equities experienced higher volumes and enjoyed an increased tariff. Additionally, certain natural gas pipeline as well as gathering and processing equities benefited from growth projects, offset slightly by the performance of propane and gas storage equities.

We ended our fiscal year with leverage (including bank debt and senior notes) at 15.3 percent of total assets, below our long-term target of 20 percent. The market appreciation of our investments led to an improvement of our leverage position as we allowed our leverage as a percent of total assets to decrease over the near term. As of Nov. 30, 2011, our leverage had a weighted average maturity of 2.1 years and a weighted average cost of leverage of 3.3 percent, with over 60 percent at fixed rates. We believe a primarily fixed-rate strategy with laddered maturities enhances the predictability and sustainability of our distributable cash flow.

Additional information about our financial performance is available in the Key Financial Data and Management s Discussion of this report.

Conclusion

The North American power and energy sector is undergoing a period of change, driven by new supply sources and an increasing focus on domestic, clean energy. New power and energy infrastructure is needed to accommodate the evolving landscape. We look forward to serving as your investment adviser to navigate the course ahead, with an investment philosophy anchored in quality.

Sincerely,

The Managing Directors
Tortoise Capital Advisors, L.L.C.
The adviser to Tortoise Power and Energy Infrastructure Fund, Inc.

H. Kevin Birzer   Zachary A. Hamel   Kenneth P. Malvey

Terry Matlack   David J. Schulte

**TPZ Benchmark Index includes the BofA Merrill Lynch US Energy Index (CIEN), the BofA Merrill Lynch US Electric Utility Index (CUEL) and the Tortoise MLP Total Return Index (TMLPT).*
(Unaudited)

Key Financial Data *(Supplemental Unaudited Information)*

(dollar amounts in thousands unless otherwise indicated)

The information presented below regarding Distributable Cash Flow and Selected Operating Ratios is supplemental non-GAAP financial information, which we believe is meaningful to understanding our operating performance. The Selected Operating Ratios are the functional equivalent of EBITDA for non-investment companies, and we believe they are an important supplemental measure of performance and promote comparisons from period-to-period. Supplemental non-GAAP measures should be read in conjunction with our full financial statements.

	Year Ended November 30,		2010	2011	
	2010	2011	Q4[1]	Q1[1]	Q2[1]
Total Income from Investments					
Interest earned on corporate bonds	$ 7,876	$ 7,939	$2,028	$2,010	$2,008
Distributions received from master limited partnerships	3,514	3,424	834	839	847
Dividends paid in stock	2,345	2,456	598	604	610
Total from investments	13,735	13,819	3,460	3,453	3,465
Operating Expenses Before Leverage Costs and Current Taxes					
Advisory fees, net of expense reimbursement	1,510	1,642	398	402	422
Other operating expenses	476	477	108	126	124
	1,986	2,119	506	528	546
Distributable cash flow before leverage costs and current taxes	11,749	11,700	2,954	2,925	2,919
Leverage costs[2]	1,274	1,195	303	297	298
Current foreign tax expense	2	5	1		2
Distributable Cash Flow[3]	$10,473	$10,500	$2,650	$2,628	$2,619
Distributions paid on common stock	$10,399	$10,419	$2,603	$2,603	$2,604
Distributions paid on common stock per share	1.500	1.500	0.375	0.375	0.375
Payout percentage for period[4]	99.3%	99.2%	98.2%	99.1%	99.4%
Net realized gain on investments and interest rate swaps, for the period	4,846	4,007	506	808	24
Total assets, end of period	204,102	215,055	204,102	212,268	210,563
Average total assets during period[5]	190,522	208,545	200,243	207,351	211,951
Leverage[6]	32,700	33,000	32,700	32,300	32,000
Leverage as a percent of total assets	16.0%	15.3%	16.0%	15.2%	15.2%
Net unrealized appreciation, end of period	39,346	46,958	39,346	48,673	48,165
Net assets, end of period	169,874	176,329	169,874	178,732	176,954
Average net assets during period[7]	156,685	173,458	167,033	172,182	176,803
Net asset value per common share	24.47	25.37	24.47	25.75	25.47
Market value per common share	23.06	24.18	23.06	24.86	25.22
Shares outstanding	6,940,986	6,951,333	6,940,986	6,940,986	6,946,635
Selected Operating Ratios[8]					
As a Percent of Average Total Assets					
Total distributions received from investments	7.21%	6.63%	6.93%	6.75%	6.49%
Operating expenses before leverage costs and current taxes	1.04%	1.02%	1.01%	1.03%	1.02%
Distributable cash flow before leverage costs and current taxes	6.17%	5.61%	5.92%	5.72%	5.47%
As a Percent of Average Net Assets					
Distributable cash flow[3]	6.68%	6.05%	6.36%	6.19%	5.88%

(1)Q1 is the period from December through February. Q2 is the period from March through May. Q3 is the period from June through August. Q4 is the period from September through November.

(2)Leverage costs include interest expense, interest rate swap expenses and other leverage expenses.

(3) Net investment income, before current foreign tax expense on the Statement of Operations is adjusted as follows to reconcile to Distributable Cash Flow (DCF): increased by the return of capital on MLP distributions, the value of paid-in-kind distributions, amortization of debt issuance costs and the change in metholdology for calculating amortization of premiums or discounts; and decreased by realized and unrealized gains

(losses) on interest rate swap settlements and current foreign taxes paid.

(4) Distributions paid as a percentage of Distributable Cash Flow.

(5) Computed by averaging month-end values within each period.

(6) Leverage consists of long-term debt obligations and short-term borrowings.

(7) Computed by averaging daily values within each period.

(8) Annualized for periods less than one full year. Operating ratios contained in our Financial Highlights are based on average net assets.

Management s Discussion *(Unaudited)*

The information contained in this section should be read in conjunction with our Financial Statements and the Notes thereto. In addition, this report contains certain forward-looking statements. These statements include the plans and objectives of management for future operations and financial objectives and can be identified by the use of forward-looking terminology such as may, will, expect, intend, anticipate, estimate, or continue or the negative thereof or other variations thereon or comparabl terminology. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors that could cause actual results and conditions to differ materially from those projected in these forward-looking statements are set forth in the Risk Factors section of our public filings with the SEC.

Overview

Tortoise Power and Energy Infrastructure Fund, Inc. s (TPZ) primary investment objective is to provide a high level of current income, with a secondary objective of capital appreciation. We seek to provide our stockholders a vehicle to invest in a portfolio consisting primarily of securities issued by power and energy infrastructure companies. Power infrastructure operations use asset systems to provide electric power generation (including renewable energy), transmission and distribution. Energy infrastructure operations use a network of pipeline assets to transport, store, gather and/or process crude oil, refined petroleum products (including biodiesel and ethanol), natural gas or natural gas liquids. We believe the power and energy infrastructure sectors provide stable and defensive characteristics throughout economic cycles. A majority of the investments are in fixed income securities with the remainder invested in equities which provide growth potential.

TPZ is a registered non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act), and expects to qualify each year as a regulated investment company (RIC) under the U.S. Internal Revenue Code of 1986, as amended (the Code). Tortoise Capital Advisors, L.L.C. (the Adviser) serves as investment adviser.

Company Update

Market values of our debt and MLP investments increased during the 4th quarter, contributing to an overall increase of $11.3 million in total assets. Interest and distributions received from our investments increased slightly during the quarter and decreased average total assets resulted in lower asset based expenses. While we increased leverage slightly during the quarter, our total leverage as a percent of total assets decreased as quarter-end asset values increased. We maintained our monthly distribution of $0.125 per share. Additional information on the results of our operations is discussed in more detail below.

Critical Accounting Policies

The financial statements are based on the selection and application of critical accounting policies, which require management to make significant estimates and assumptions. Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management s most difficult, complex, or subjective judgments. Our critical accounting policies are those applicable to the valuation of investments and certain revenue recognition matters as discussed in Note 2 in the Notes to Financial Statements.

Determining Distributions to Stockholders

Unlike most RICs which pay distributions based upon income, we pay monthly distributions based primarily upon our current and estimated future distributable cash flow (DCF). Our Board of Directors also considers accumulated undistributed DCF and net realized capital gains, if any, in determining distributions to stockholders. Our Board of Directors reviews the distribution rate quarterly, and may adjust the monthly distributions throughout the year.

Determining DCF

DCF is simply income from investments less expenses. Income from investments includes the accrued interest from corporate bonds, cash distributions and paid-in-kind distributions from MLPs and related companies and dividends earned from short-term investments. The total expenses include current or anticipated operating expenses and leverage costs. Each are summarized for you in the table on page 2 and are discussed in more detail below.

The Key Financial Data table discloses the calculation of DCF and should be read in conjunction with this discussion. The difference between income from investments in the DCF calculation and total investment income as reported in the Statement of Operations, is reconciled as follows: (1) GAAP recognizes distribution income from MLPs and common stock on their ex-dates, whereas the DCF calculation reflects distribution income on their pay dates; (2) GAAP recognizes that a significant portion of the cash distributions received from MLPs are characterized as a return of capital and therefore excluded from investment income, whereas the DCF calculation includes the return of capital; (3) income from investments in the DCF calculation includes the value of dividends paid-in-kind (additional stock or units), whereas such amounts are not included as income for GAAP purposes; and (4) amortization of premium or discount for all securities is calculated using the yield to worst methodology for GAAP purposes while yield to call is used in calculating amortization for long-dated hybrid securities in the DCF calculation. The treatment of expenses in the DCF calculation also differs from what is reported in the Statement of Operations. In addition to the total operating expenses, including expense reimbursement, as disclosed in the Statement of Operations, the DCF calculation reflects interest expense and realized and unrealized gains (losses) on interest rate swap settlements as leverage costs. A reconciliation of Net Investment Income, before Current Foreign Tax Expense to DCF is included below.

Income from Investments

We seek to achieve our investment objectives by investing in income-producing fixed income and equity securities of companies that we believe offer attractive distribution rates. We evaluate each holding based upon its contribution to our investment income and its risk relative to other potential investments.

Total income from investments for the 4th quarter 2011 was approximately $3.5 million, a slight increase as compared to 3rd quarter 2011 and relatively unchanged as compared to 4th quarter 2010. This increase from 3rd quarter is due to an increase in distributions from our equity investments.

Expenses

We incur two types of expenses: (1) operating expenses, consisting primarily of the advisory fee, and (2) leverage costs. On a percentage basis, operating expenses before leverage costs were an annualized 1.00 percent of average total assets for 4th quarter 2011 as compared to 1.01 percent for the 3rd quarter 2011 and 1.01 percent for 4th quarter 2010. Advisory fees for 4th quarter 2011 decreased 1.9 percent from 3rd quarter 2011 as a result of decreased average managed assets during the quarter as discussed above.

While the contractual advisory fee is 0.95 percent of average monthly managed assets, the Adviser waived an amount equal to 0.15 percent of average monthly managed assets for the calendar years 2010 and 2011 and has agreed to waive 0.10 percent of average monthly managed assets for calendar year 2012.

Leverage costs consist of two major components: (1) the direct interest expense, which will vary from period to period, as our senior notes and revolving credit facility have variable rates of interest, and (2) the realized and unrealized gain or loss on our interest rate swap settlements. Detailed information on our senior notes and revolving credit facility is included in the Liquidity and Capital Resources section below.

Management s Discussion *(Unaudited)*

(Continued)

As indicated in Note 10 of our Notes to Financial Statements, at November 30, 2011, we had $21 million notional amount of interest rate swap contracts with Wells Fargo Bank in an attempt to reduce a portion of the interest rate risk arising from our leveraged capital structure. A $6 million notional amount swap matured on November 6, 2011 and we entered into $5 million notional interest rate swaps with Wells Fargo Bank on January 5, 2012. TPZ has agreed to pay Wells Fargo Bank a fixed rate while receiving a floating rate based upon the 1-month or 3-month U.S. Dollar London Interbank Offered Rate (LIBOR). The spread between the fixed swap rate and LIBOR is reflected in our Statement of Operations as a realized or unrealized gain when LIBOR exceeds the fixed rate (Wells Fargo Bank pays TPZ the net difference) or a realized or unrealized loss when the fixed rate exceeds LIBOR (TPZ pays Wells Fargo Bank the net difference). Including the swaps entered into on January 5, 2012, the interest rate swap contracts have a weighted average fixed rate of 2.18 percent and weighted average remaining maturity of approximately 2.7 years. This swap arrangement effectively fixes the cost on approximately 79 percent of our outstanding leverage over the remaining swap period.

Total leverage costs for DCF purposes were approximately $295,000 for the 4th quarter 2011, a slight decrease as compared to 3rd quarter 2011. This includes interest expense on our senior notes and bank credit facility and accrued swap settlement costs of approximately $122,000. The weighted average annual rate of our leverage was 3.29 percent at November 30, 2011.

Distributable Cash Flow

For 4th quarter 2011, our DCF was approximately $2.7 million, a 1.9 percent increase as compared to 3rd quarter 2011. On August 8, 2011, we declared monthly distributions for the 2011 4th fiscal quarter of $0.125 per share. This is unchanged as compared to 3rd quarter 2011.

Our dividend payout ratio as a percentage of DCF decreased from 100.1 percent during 3rd quarter 2011 to 98.3 percent during 4th quarter 2011. A payout of less than 100 percent of DCF provides cushion for on-going management of the portfolio, changes in leverage costs and other expenses. An on-going payout ratio in excess of 100 percent will, over time, erode the earning power of a portfolio and may lead to lower distributions or portfolio managers taking on more risk than they otherwise would.

Net investment income before current foreign tax expense on the Statement of Operations is adjusted as follows to reconcile to DCF for 2011 YTD and the 4th quarter 2011 (in thousands):

	2011 YTD	4th Qtr 2011
Net Investment Income, before Current Foreign Tax Expense	$ 5,001	$1,252
Adjustments to reconcile to DCF:		
Dividends paid in stock	2,456	623
Distributions characterized as return of capital	3,272	830
Amortization of debt issuance costs	38	10
Interest rate swap expenses	(503)	(122)
Change in amortization methodology	241	60
Current foreign tax expense	(5)	(2)
DCF	$10,500	$2,651

Liquidity and Capital Resources

We had total assets of $215.1 million at year-end. Our total assets reflect the value of our investments, which are itemized in the Schedule of Investments. It also reflects cash, interest and receivables and any expenses that may have been prepaid. During the 4th quarter 2011, total assets increased by $11.3 million. This change was primarily the result of a $6.8 million increase in the value of our investments as reflected by the change in net realized and unrealized gains on investments (excluding return of capital on distributions), net portfolio sales of $0.9 million, and an increase in receivables of approximately $5.4 million.

Total leverage outstanding at November 30, 2011 of $33 million is comprised of $20 million floating rate senior notes and $13 million outstanding on our bank credit facility. Through the utilization of our interest rate swaps, we have essentially fixed the rate on approximately 79 percent of our leverage with the remaining 21 percent floating based upon short-term LIBOR. Total leverage represented 15.3 percent of total assets with a weighted average maturity of 2.1 years. Our leverage as a percent of total assets remains below our long-term target level of 20 percent of total assets. This allows the opportunity to add leverage when compelling investment opportunities arise. Temporary increases to up to 25 percent of our total assets may be permitted, provided that such leverage is consistent with the limits set forth in the 1940 Act, and that such leverage is expected to be reduced over time in an orderly fashion to reach our long-term target. Our leverage ratio is impacted by increases or decreases in investment values, issuance of equity and/or the sale of securities where proceeds are used to reduce leverage.

We have used leverage to acquire investments consistent with our investment philosophy. The terms of our leverage are governed by regulatory and contractual asset coverage requirements that arise from the use of leverage. Additional information on our leverage and asset coverage requirements is discussed in Note 9 in the Notes to Financial Statements. Our coverage ratio is updated each week on our Web site at www.tortoiseadvisors.com.

Taxation of our Distributions

We expect that distributions paid on common shares will generally consist of: (i) investment company taxable income (which includes, among other items, taxable interest and the excess of any short-term capital gains over net long-term capital losses); (ii) long-term capital gain (net gain from the sale of a capital asset held longer than 12 months over net short-term capital losses) and (iii) return of capital.

We have received exemptive relief from the SEC to distribute capital gains throughout the year and we may also distribute additional capital gains in the last fiscal quarter if necessary to meet minimum distribution requirements and to avoid being subject to excise taxes. If, however, we elect to retain any capital gains, we will be subject to U.S. capital gains taxes. The payment of those taxes will flow-through to stockholders as a tax credit to apply against their U.S. income tax payable on the deemed distribution of the retained capital gain.

For tax purposes, distributions paid to common stockholders for the calendar year ended December 31, 2011 were approximately 57 percent ordinary income (none of which is qualified dividend income), 34 percent long-term capital gain and 9 percent return of capital. A holder of our common stock would reduce their cost basis for income tax purposes by approximately 9 percent of the total distributions they received in 2011. This information is reported to stockholders on Form 1099-DIV and is available on our Web site at www.tortoiseadvisors.com.

SCHEDULE OF INVESTMENTS
November 30, 2011

	Principal Amount/Shares	Fair Value
Corporate Bonds 69.3%(1)		
Local Distribution Pipelines 4.9%(1)		
United States 4.9%(1)		
CenterPoint Energy, Inc., 6.500%, 05/01/2018	$ 4,000,000	$ 4,665,628
NiSource Finance Corp., 6.400%, 03/15/2018	3,500,000	4,020,607
		8,686,235
Natural Gas/Natural Gas Liquids Pipelines 20.6%(1)		
Canada 3.4%(1)		
TransCanada Pipelines Limited, 6.350%, 05/15/2067	6,000,000	