

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Progress Energy Florida, Inc.'s)
petition for approval of long-term fuel) Docket No.: 041414-E1
supply and transportation contracts for)
Hines Unit 4 and additional system) Submitted for Filing: December 20, 2004
supply and transportation.)

DIRECT TESTIMONY
OF PAMELA R. MURPHY

ON BEHALF OF
PROGRESS ENERGY FLORIDA

BONNIE E. DAVIS
Deputy General Counsel
PROGRESS ENERGY SERVICE
COMPANY, LLC
106 E. College Avenue, Ste. 800
Tallahassee, FL 32301-7740
Telephone: (850) 222-8738
Facsimile: (850) 222-9768

GARY L. SASSO
Florida Bar No. 622575
JAMES MICHAEL WALLS
Florida Bar No. 0706272
JOHN T. BURNETT
Florida Bar No. 173304
CARLTON FIELDS, P.A.
Post Office Box 3239
Tampa, FL 33601-3239
Telephone: (813) 223-7000
Facsimile: (813) 229-4133

DOCUMENT NUMBER: 041414-E1
13319 DEC 20 04
FPSC-COMMISSION: CLE

FPSC DOCKET NO.

IN RE: PROGRESS ENERGY FLORIDA, INC.'S PETITION FOR
APPROVAL OF LONG-TERM FUEL SUPPLY AND
TRANSPORTATION CONTRACTS FOR HINES UNIT 4 AND
ADDITIONAL SYSTEM SUPPLY AND TRANSPORTATION

DIRECT TESTIMONY OF
PAMELA R. MURPHY

I. INTRODUCTION AND QUALIFICATIONS

1 Q. Please state your name and business address.

2 A. My name is Pamela R. Murphy. My business address is P.O. Box 1551, Raleigh,
3 North Carolina 27602.

4

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by Progress Energy Carolinas, Inc. ("PEC") in the capacity of
7 Director, Gas & Oil Trading.

8

9 Q. Please summarize your educational background and work experience.

10 A. I graduated in 1984 from West Virginia State College with a Bachelor's Degree in
11 Accounting. I have been in the natural gas industry for approximately 29 years. My
12 previous positions have been with several subsidiaries of the Columbia Energy Group
13 (now known as Nisource, Inc.). Part of my experience was with the energy marketing
14 and trading organization, Columbia Energy Services, where I was Vice President of
15 Operations. Prior to this position, I was Director of Marketing for Columbia Natural
16 Resources, the exploration and production company of the Columbia Energy Group.

1 In March 1999, I accepted a position in the Gas Supply & Transportation
2 Department of Carolina Power & Light, Inc. (now known as PEC) as Manager, Gas
3 Supply Procurement & Logistics. In December 2000, I was promoted to Director,
4 Gas & Oil Trading.

5
6 **II. PURPOSE OF TESTIMONY**

7 **Q. What is the purpose of your testimony?**

8 A. The purpose of my testimony is to present three new long-term fuel supply and
9 transportation contracts which will meet the fuel requirements for Hines Unit 4
10 (“Hines 4”) and add additional system supply and transportation to the Company’s
11 natural gas portfolio. These contracts will provide the foundation for a new, third gas
12 supply route to Florida from the Atlantic coast. We believe this will provide valuable
13 strategic benefits to our customers, as well as to the state as a whole.

14 The contracts presented in my testimony are conditioned on regulatory approval
15 by the Florida Public Service Commission (the “Commission”). While payments
16 under the contracts will not begin until 2007, we seek Commission approval now of
17 the contracts as the most cost-effective alternative, considering all price and non-price
18 factors, for increasing natural gas supply and transportation to our system. The
19 Commission should find that entering these agreements at this time is a reasonable
20 and prudent action by the Company to maintain a reliable and adequate fuel supply
21 over the long term.

22
23 **Q. Are you sponsoring any exhibits to your testimony?**

24 A. Yes. I will sponsor the following exhibits:

- 1 **PRM – 1 A Firm Gas Supply Contract with BG LNG Services, LLC for Hines**
2 **Unit 4**
- 3 **PRM – 2 A Precedent Agreement for Firm Transportation with Southern**
4 **Natural Gas Company**
- 5 **PRM – 3 Firm Gas Transportation Contracts with Florida Gas Transmission**
6 **Company**
- 7 **PRM – 4 A Visual Aid Map**
- 8 **PRM – 5 Analysis of Gas Supply Alternatives on Comparable Volume Basis**
- 9 **PRM – 6 Analysis of Contracts Versus Current Market Option**

10 Each of these exhibits was prepared under my direction, and each is true and accurate.

11

12 **III. THE GAS SUPPLY AND TRANSPORTATION CONTRACTS**

13 **Q. Please describe the major components of the firm gas supply and transportation**
14 **agreements.**

15 A. PEF has entered into a series of agreements designed to provide firm natural gas
16 supply from BG LNG Services, LLC (“BG”), in the form of liquefied natural gas
17 (“LNG”) regasified at the Elba Island LNG terminal near Savannah, Georgia, and firm
18 transportation of the BG gas supply from Elba Island to the Hines Energy Complex in
19 central Florida, as well as to other gas-fired plants on our system. Transportation will
20 be provided through the interconnection of a new pipeline extension by Southern
21 Natural Gas Company (“Southern Natural”) and an expansion of the existing Florida
22 Gas Transmission (“FGT”) pipeline. Southern Natural’s pipeline extension is
23 referred to as the Cypress project or the Cypress pipeline.

24 I have prepared the map contained in my Exhibit _____ (PRM – 4) as a visual
25 aid to assist in presenting PEF’s gas supply and transportation plan.

1 **Q. Are these contracts the most cost-effective alternative?**

2 A. Yes. When analyzed on price and non-price factors, the BG/Cypress/FGT contracts
3 are the most cost-effective alternative from both a unit-specific and system
4 perspective. The contracts provide a greater degree of certainty of meeting the
5 commercial in-service date of Hines 4 than other new construction alternatives; they
6 achieve our objective of geographically diversifying our natural gas supply portfolio,
7 and they provide additional options for meeting future supply and transportation
8 needs as our system expands. It is important that the Commission approve these
9 contracts now so that Southern Natural and FGT can proceed on schedule to meet the
10 commercial in-service date of Hines 4.

11
12 **Q. Please describe the natural gas supply contract.**

13 A. The natural gas supply contract requires BG to deliver regasified LNG to PEF at the
14 Elba Island terminal for a term of 20 years from the date of the completion of both the
15 Cypress pipeline project and the FGT expansion. The natural gas supply contract is
16 designed to meet the fuel supply needs for Hines 4 beginning May 1, 2007 as well as
17 for volumes of gas above the projected consumption at Hines 4 to other of our gas-
18 fired units beginning May 1, 2008 and increasing May 1, 2009.

19
20 **Q. Why did PEF contract for gas supply beyond the requirements of Hines 4?**

21 A. While the majority of the gas supply delivered under the BG contract will be used to
22 meet the fuel requirements of Hines 4, the additional volumes and transportation
23 capacity will capture the benefits of geographic supply diversity for our gas-fired fleet
24 as a whole. The FGT upgrade necessary to connect the Cypress pipeline with the
25 Hines Energy Complex provided an opportunity to contract for additional commodity

1 volumes and firm transportation that can be used to serve other PEF plants, such as
2 our Anclote plant and the new tolling agreement with Shady Hills, on a firm basis.

3
4 **Q. What volumes of gas are to be supplied under the BG contract?**

5 A. The following seasonal volumes have been contracted for Hines 4 projected for May
6 1, 2007 :

7 [REDACTED]

8 [REDACTED]
9 [REDACTED]

10 These seasonal volumes will compliment PEF's existing natural gas portfolio.

11 The Company has contracted for the following additional seasonal gas supply and
12 transportation (under the Southern Natural/FGT contracts) commencing May 1, 2008:

13 [REDACTED]
14 [REDACTED]

15 Commencing May 1, 2009, the Company contracted for an additional seasonal gas
16 supply and transportation above the volumes in 2008:

17 [REDACTED]
18 [REDACTED]

19 Beginning May 1, 2009, the total supply and transportation volume will be [REDACTED]
20 [REDACTED] The supply commitments
21 and their timing match our firm transportation commitments.

22
23 **Q. What is the pricing structure for the BG contract?**

24 A. The contract price is indexed to Henry Hub gas as reported in the [REDACTED]
25 [REDACTED]

1 [REDACTED] This index provides a reasonable basis for long-term pricing. The [REDACTED]
2 [REDACTED] and should help mitigate the price volatility
3 in the “basis” adder for gas supplied from the Mobile Bay - Destin production areas.
4

5 **Q. When do the Hines 4 supply and transportation contracts begin?**

6 A. The Hines 4 supply and transportation contracts begin upon completion of the
7 Cypress pipeline and FGT expansion. The projected completion date of the Cypress
8 pipeline and FGT expansion is May 2007. The projected in-service date for Hines 4
9 is December of that year. The May start date will provide the commitment necessary
10 for Southern Natural and FGT to proceed with their pipeline extensions or expansions
11 to meet the commercial in-service date of Hines 4.
12

13 **Q. Will the BG supply contract require any upgrades at the Elba Island LNG
14 terminal facility?**

15 A. No. There is sufficient capacity at the Elba Island facility to handle the BG supply
16 contract with PEF. The Elba Island LNG terminal facility is currently being upgraded
17 but our contract is not tied to the expansion.
18

19 **Q. Will the BG supply contract require any other regulatory approvals?**

20 A. No. Gas supply contracts do not require Federal Energy Regulatory Commission
21 (“FERC”) approval.
22

23 **Q. Please describe the natural gas transportation contracts.**

24 A. PEF’s contract with Southern Natural provides for firm transportation of the gas
25 supplied under the BG contract through an extension of their existing pipeline

1 network. The extension will be built to connect the Elba Island LNG terminal to a
2 point of interconnection with the FGT pipeline in Clay County, Florida. It is
3 scheduled to be in-service in May, 2007 to dovetail with the Hines 4 gas supply
4 contract.

5 PEF's firm transportation contract with FGT will complete the route from the
6 interconnection point with the Cypress pipeline to the Hines Energy Complex in Polk
7 County initially, and later to other of the Company's gas-fired units as well. FGT's
8 expansion of its existing pipeline system to the proposed interconnection point in
9 Clay County also has a synchronized in-service date in May, 2007.

10 These contracts have twenty-year terms projected to begin in May of 2007.

11
12 **Q. What level of transportation capacity will PEF take under the Southern Natural**
13 **and FGT contracts?**

14 A. PEF's contractual firm transportation capacity has been structured to match the
15 natural gas purchases under the BG supply contract and is therefore the same as those
16 described in my earlier answer.

17
18 **Q. What is the pricing structure for the transportation contracts?**

19 A. The contracts follow the standard format of a fixed monthly reservation charge,
20 expressed on a dollar per MMBtu basis. For the Southern Natural contract, the
21 monthly reservation charge is a [REDACTED] per MMBtu. For the FGT
22 contract, the monthly reservation charge is the applicable monthly rate specified in
23 FGT's FTS-2 tariff for the summer period [REDACTED]

1 **Q. Will the transportation contracts require additional regulatory approval?**

2 A. Yes. Both the Southern Natural Cypress pipeline extension and the FGT pipeline
3 expansion projects will require FERC approval. Under our contracts, Southern
4 Natural and FGT will be responsible for obtaining this approval. Mr. Hughes
5 addresses this in his testimony.

6
7 **Q. What process was used to select the BG/Cypress/FGT alternative?**

8 A. The Company conducted a series of RFPs for the gas supply required by Hines 4. The
9 process began by soliciting proposals from all entities who could potentially meet the
10 fuel requirements of Hines 4. From this group six proposals were received, with
11 supply sources in the Gulf of Mexico, the Bahamas, and Elba Island. Some of the
12 bids proposed a bundled transportation and commodity arrangement and some were
13 for the commodity only. For the commodity-only bids, PEF contacted the relevant
14 pipeline companies to see if a workable arrangement for transportation could be
15 coupled with the commodity bid.

16
17 **Q. What criteria were used to evaluate the bids received?**

18 A. The bids were evaluated on the basis of the following factors:
19 • **Certainty of a Proposal's Success:** This factor considered a proposal's ability to
20 deliver gas supply to Hines 4 at or near the unit's in-service date of December
21 2007.
22 • **Economics:** This factor considered the all-in price for commodity and
23 transportation components associated with the proposal.

- 1 • Operational Flexibility: This factor considered the degree of flexibility provided
2 by a proposal's contract terms and conditions to serve other existing and
3 potential plants in PEF's fleet.
- 4 • Supply Diversity: This factor considered the degree to which a proposal could
5 reduce PEF's reliance on the Mobile Bay - Destin supply area. This geographic
6 diversity provides operational flexibility to manage supply disruption caused by
7 hurricanes and thereby enhances system reliability.

8

9 **Q. When was the RFP conducted?**

10 A. A series of RFPs were distributed to potential bidders between August 2003 and April
11 2004. Two alternatives were identified as the most promising; the BG/Cypress/FGT
12 combination, and a proposal from a Bahamas-based LNG supplier. They were
13 evaluated against each other and against a Gulf of Mexico-based alternative. Over the
14 ensuing months we engaged in contract negotiations with each of these potential
15 suppliers, resulting in the contracts we present here.

16

17 **Q. Why did the Company select the BG/Cypress/FGT combination?**

18 A. The BG/Cypress/FGT contract package is the most cost-effective alternative
19 considering price and non-price strategic factors to meet our expanding natural gas
20 and transportation needs. The contracts fulfill our natural gas supply and
21 transportation policy to secure both gas supply and transportation for our baseload
22 plants through firm long-term contracts. They confer several strategic benefits. First,
23 the contracts provide a greater degree of certainty of meeting the commercial in-
24 service date for Hines 4 of the new construction alternatives. Elba Island is an
25 existing and operating LNG facility with the capacity to handle the gas supply under

1 the BG contract. BG, in turn, has contractually represented to PEF that they have
2 LNG supplies and terminal capacity at Elba Island to perform its obligation under the
3 natural gas supply contract. Our firm transportation contract with Southern Natural
4 subscribes [REDACTED] of the Cypress pipeline capacity. We have reason to
5 be confident that the project will be completed on time, as Mr. Hughes addresses
6 more fully in his testimony. In total, we believe that the BG/Cypress/FGT alternative
7 has the highest certainty of success of the LNG alternatives available to meet our
8 Hines 4 needs.

9
10 **Q. Does the BG/Cypress/FGT project present completion risks?**

11 A. To a degree, yes. As with all construction projects, there are risks associated with the
12 BG/Cypress/FGT project. However, we believe that the degree of risk for the Cypress
13 pipeline and the FGT expansion is much less than for a Bahamas-based project at this
14 time. The Elba Island terminal is an existing and operating facility. BG currently has
15 terminal capacity that is more than sufficient to deliver PEF's contracted gas supply
16 on a firm basis. Southern Natural has already completed some of the preliminary
17 right-of-way work associated with the Cypress pipeline. Mr. Hughes will address this
18 more fully in his testimony. We are confident that they will be able to accomplish
19 this on schedule.

20
21 **Q. Please describe the Company's plan to monitor timely completion of the pipeline
22 extensions.**

23 A. Our plan is to conduct monthly meetings with Southern Natural to review the progress
24 associated with the project timelines that are necessary in order to place the Cypress
25 pipeline into service by May 1, 2007. These project timelines are discussed in Mr.

1 Hughes' testimony. Our monthly meetings will also give the Company an
2 opportunity to assess Southern Natural's due diligence in achieving these milestones.
3 As discussed in the testimony of Bruce Hughes of Southern Natural, Federal Energy
4 Regulatory Commission ("FERC") approval for a project of this size generally
5 requires twelve to fourteen months. Construction will require approximately nine
6 months. Southern Natural will prepare and file an application with the FERC in the
7 second quarter of 2005. In addition, our contract with Southern Natural contains
8 several reporting milestones that will keep us informed of the progress of the pipeline
9 extension. They include the receipt and acceptance by Southern Natural of the
10 following: (1) [REDACTED]
11 [REDACTED]; (2) Preliminary Determination from the
12 FERC on or before [REDACTED]; and (3) all governmental authorizations from
13 the FERC, the United States Army Corps of Engineers, the U.S. Fish and Wildlife
14 Service, and any other state and federal regulatory agencies to construct, install, and
15 operate the Cypress pipeline on or before [REDACTED]. We will carefully
16 monitor the milestones of the project with Southern Natural to ensure they comply
17 with the conditions precedent contained in our contract. In the unlikely event it
18 appears Southern Natural will not make the scheduled in-service date of May 1, 2007,
19 we will turn to existing resources to bridge the gap with the in-service date of the
20 Hines 4 Unit. This degree of latitude is acceptable because our monitoring efforts
21 will enable us to know well in advance whether short-term alternatives need to be
22 arranged.
23
24
25

1 **Q. Please explain the significance of geographic diversity.**

2 A. The BG/Cypress/FGT combination will provide geographic diversity to our fuel supply
3 sources. At present, approximately [REDACTED] of our gas supply is from sources in the
4 Mobile Bay – Destin production area of the Gulf of Mexico. Adding Elba Island as a
5 receipt point to receive the gas under our BG contract to our supply portfolio will shift
6 approximately [REDACTED] of our total gas supply to sources other than the Mobile Bay –
7 Destin production area. In addition, this receipt point located on the Atlantic coast
8 will diversify the risk of supply interruption due to hurricanes and other weather
9 disturbances in the Gulf of Mexico, or any other supply disruptions. When a fourth
10 pipeline is constructed bringing LNG to Florida from the south, the geographic
11 diversity of the east coast fuel supply will be further maximized.

12

13 **Q. Earlier you mentioned the operational flexibility that would be provided by the**
14 **BG/Cypress/FGT contracts. Please explain what you meant.**

15 A. Operational flexibility is a strategic benefit unique to these contracts. The contracts
16 provide additional flexibility for our system. They give us the ability to serve a part
17 of the fuel requirements for our Anclote Plant and the new tolling contract with Shady
18 Hills on a firm basis. The Cypress pipeline will allow the Company to consider siting
19 future generation at or near its existing Suwannee plant site.

20 Additionally, there is the benefit of geographic supply diversity as a means of
21 mitigating supply disruptions caused by hurricanes or other inclement weather in the
22 Gulf of Mexico. Having supply sources on different coasts enhances system
23 reliability because it is unlikely they would both suffer supply interruptions at the
24 same time.

25

1 **Q. What made the difference between the Cypress and the Bahamas-based**
2 **alternative?**

3 A. From a strategic perspective, we considered geographic diversity of supply and
4 relative certainty in meeting Hines 4's commercial in-service date to be the key
5 factors. While each of the two finalists had attractive aspects, we ultimately
6 concluded that the amount of our supply need alone would not be sufficient to anchor
7 a new Bahamas-based LNG facility and associated pipeline. In addition, we made the
8 judgment that there was not a sufficient degree of certainty that the Bahamas-based
9 project could meet Hines 4's in-service date.

10 We continue to believe that ultimately a Bahamas-based LNG project is likely to
11 come to fruition and will be a good resource for the State of Florida. We certainly
12 intend to give full consideration to potential Bahamas-based LNG sources when
13 evaluating our future supply needs. The availability of a Bahamas-based LNG facility
14 and related pipeline would further enhance the geographic diversity of PEF's and the
15 State of Florida's natural gas supply. We concluded only that a purchase from a
16 Bahamas project was not the best choice for our next planned generating unit at this
17 time.

18
19 **Q. Please describe the economic difference between the Cypress and the Bahamas-**
20 **based alternative.**

21 A. Over the twenty-year contract term, the price difference between the alternatives was
22 not significant enough to dictate that factor alone as the basis for decision. The price
23 spread between the alternatives on a comparable volume basis of [REDACTED] MMBtu in
24 the summer and [REDACTED] MMBtu in the winter, as reflected in Exhibit _____ (PRM -
25 5), amounted to a difference of approximately [REDACTED]

1 of the total cost difference over the life of the contract. Exhibit ____ (PRM-5)
2 reflects quantities and timing based on the responses to the RFP issued by the
3 Company as well as the present value amounts to reflect discounting to December 1,
4 2004. However, since our analysis of the most cost-effective alternative weighed
5 both price and non-price strategic factors, the strategic benefits and the greater
6 certainty of timely completion of the BG/Cypress/FGT proposal made it the clear
7 winner.

8 In addition, we also evaluated the economics of the Cypress project versus the
9 current gas market in a comparable time period, as reflected in Exhibit ____ (PRM
10 - 6). A Gulf of Mexico alternative is the market proxy in Exhibit ____ (PRM-6),
11 using a term of twenty years beginning in May 2007 with the actual contracted
12 volumes previously stated. Based on this analysis, the Cypress project is slightly
13 lower in price than the Gulf of Mexico alternative.

14
15 **Q. How does the pricing under these supply and transportation contracts compare**
16 **with the costs assumed for these items in the Company's analysis of the Hines 4**
17 **RFP?**

18 A. The pricing for these contracts is slightly less than that assumed in the RFP analysis
19 of the Hines 4 self-build option. The self-build option assumed a firm transportation
20 annual cost of [REDACTED], while the firm transportation costs in the Cypress/FGT
21 contracts is [REDACTED]. The commodity costs in the Hines 4 RFP analysis was
22 assumed to be the same for all of the alternatives evaluated.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18

IV. CONCLUSION

Q. Please recap your testimony.

A. The BG/Cypress/FGT package is the best overall choice for the gas supply and transportation requirements of our next planned generating unit, Hines 4. These contracts provide a great degree of certainty of meeting the commercial in-service date of Hines 4; they achieve our objective of geographically diversifying our natural gas supply portfolio, and they provide additional opportunity to serve our Anclote plant as well as provide additional options for future supply and transportation needs. In view of these important benefits, we believe that the combination of the price and non-price factors make this the most cost-effective choice for Hines 4, as well as PEF's system as whole. They will allow us to deliver the best long-term value to our customers in meeting their future need for reliable electric service. It is important that the Commission approve these contracts now so that Southern Natural and FGT can proceed on schedule to meet the commercial in-service date of Hines 4.

Q. Does this conclude your testimony?

A. Yes, it does.

GAS SALE AND PURCHASE CONTRACT

This Gas Sale and Purchase Contract (this "Contract") is entered into on December 1, 2004 (the "Effective Date"), between BG LNG Services, LLC, a Delaware limited liability company ("Seller") and Florida Power Corporation, a Florida corporation, doing business as Progress Energy Florida, Inc. ("Buyer").

WITNESSETH

WHEREAS, Seller desires to deliver and sell, and Buyer desires to receive and purchase, certain quantities of Gas in accordance with the terms and conditions specified in this Contract;

NOW THEREFORE, in consideration of the foregoing and of the agreements contained herein, the Parties agree as follows:

SECTION 1. DEFINITIONS; INTERPRETATION

1.1 Definitions. Unless otherwise defined herein or in any annex hereto, the following terms, when used herein or in any annex hereto shall have the meanings set forth below.

"Affiliate" shall mean, with respect to a Party, any entity controlled, directly or indirectly, by such Party, any entity that controls, directly or indirectly, such Party, or any entity directly or indirectly under common control with such Party. For this purpose, "control" of any entity or Party means ownership of a majority of the issued shares or voting power or control in fact of the entity or Party.

"Alternate Delivery Point" shall mean any point of delivery other than the Primary Delivery Point as mutually agreed between the Parties pursuant to the procedures set forth in Section 3.5.

"British thermal unit" or "Btu" shall mean the International BTU, which is also called the Btu (IT).

"Business Day" shall mean any day except Saturday, Sunday or Federal Reserve Bank holidays and shall run from 8 a.m. to 5 p.m. Eastern Prevailing Time.

"Claims" shall have the meaning set forth in Section 8.3.

"Confirmation" shall mean a written document setting forth the terms of a Price Change or a Delivery Point Change, as applicable.

"Contract Price" shall mean, with respect to a particular delivery Day, the amount expressed in U.S. Dollars per MMBtu determined pursuant to Section 3.3.

"Contract Quantity" shall mean, with respect to a particular delivery Day, the Contract Quantity for Hines plus the Contract Quantity for System, as applicable.





"Costs" shall mean, with respect to the Non-Defaulting Party, reasonable brokerage fees, commissions and other similar third party transaction costs and expenses reasonably incurred by such Party either in terminating any arrangement pursuant to which it has hedged its obligations or entering into new arrangements to replace the quantity of Gas not delivered or received hereunder as a result of the early termination of this Contract, and all reasonable attorneys' fees and expenses incurred by the Non-Defaulting Party in connection with a the early termination of this Contract pursuant to Section 11.3 hereof.



"Credit Rating" means, with respect to any entity, the rating then assigned by S&P or Moody's to such entity's unsecured, senior long-term debt obligations (not supported by third party credit enhancements), or if such entity does not have a rating for its senior unsecured long-term debt, then the rating then assigned by S&P or Moody's to such entity as a corporate or issuer rating.



"Cypress Pipeline" shall mean the proposed expansion of Southern Natural Gas Company's ("Southern's") natural gas pipeline system that extends from (i) a point of interconnection with Southern's existing natural gas pipeline system downstream of the Elba Island LNG Terminal; to (ii) an interconnection with the existing (as of the Effective Date), natural gas transmission facilities owned by Florida Gas Transmission Company in Clay County, Florida.

"Day" shall mean a period of 24 consecutive hours, coextensive with a "day" as defined by the Receiving Transporter.

"Defaulting Party" shall have the meaning set forth in Section 11.1.

"Delivery Period" shall be the period during which deliveries are to be made under this Contract and shall commence on the date that both of the Cypress Pipeline and the FGT Expansion have been placed into service and end on the date twenty (20) years thereafter.

"Delivery Point" shall mean either the Primary Delivery Point or and Alternate Delivery Point, as applicable.

"Delivery Point Change" shall have the meaning set forth in Section 3.5.

"Demand Charge" shall have the meaning set forth in Section 3.2.

"Early Termination Date" shall have the meaning set forth in Section 11.2.

"Elba Island LNG Terminal" shall mean the LNG terminal facility located in Chatham County, Georgia, which is, as of the Effective Date, owned and operated by Southern LNG, Inc.

"Event of Default" shall have the meaning set forth in Section 11.1.

"FERC" shall mean the Federal Energy Regulatory Commission or any successor thereto.

"FGT Expansion" shall mean the proposed expansion (as of the Effective Date) of Florida Gas Transmission Company's natural gas pipeline system from (i) a bidirectional meter station at the interconnection of Southern Natural Gas Company's natural gas pipeline system and Florida Gas Transmission Company's natural gas pipeline system, to (ii) Buyer's Hines electrical generating facility located in Polk County, Florida.

"Firm" shall mean that either Party may interrupt its performance with respect to the delivery or receipt of Gas without liability only to the extent that such performance is prevented for reasons of Force Majeure; provided, however, that during Force Majeure interruptions, the Party invoking Force Majeure may be responsible for any Imbalance Charges as set forth in Section 4.3 related to interruption by the Party invoking Force Majeure after the nomination is made to the relevant Transporter(s) and until the change in deliveries and/or receipts is confirmed by the Transporter(s).

"Fixed Price" shall have the meaning set forth in Section 3.6.

"Force Majeure" shall have the meaning set forth in Section 12.

"Gas" shall mean any mixture of hydrocarbons and noncombustible gases in a gaseous state consisting primarily of methane. Gas shall specifically include regasified LNG, which such LNG Seller has received from either domestic or foreign sources and that Seller (or an agent of Seller) has regasified such that it meets the requirements of the first sentence of this definition.

"Government Agency" means any federal, state, local, territorial or municipal government, governmental department, commission, board, bureau, agency, instrumentality, judicial or administrative body (or any agency, instrumentality or political subdivision thereof).

"Governmental Approval" means any authorization, consent, approval, license, lease, ruling, permit, exemption, filing, variance, order, judgment, decree, publication, notice to, declarations of or with or regulation by or with any Government Agency relating to the execution, delivery or performance of this Agreement.

"Guarantee" shall mean a guarantee from a party's corporate parent or other Affiliate that is issued to the other Party to this Contract (as a beneficiary thereof), to support the obligations of such first Party.



"Imbalance Charges" shall mean any fees, penalties, costs or charges (in cash or in kind) assessed by a Transporter for failure to satisfy the Transporter's balancing and/or nomination requirements.

"Law" means any statute, law, ordinance, code, rule or regulation, or other applicable legislative or administrative action of any Government Agency, or any judicial or administrative interpretation thereof.

"Liquefied Natural Gas" ("LNG") shall mean natural gas (primarily methane) that has been liquefied by reducing its temperature to -260 degrees Fahrenheit at atmospheric pressure.

"Market Value" shall have the meaning set forth in Section 11.3.

"Merger Event" shall mean, with respect to a Party or other entity, an event in which such Party or other entity consolidates or amalgamates with, or merges into or with, or transfers substantially all of its assets to another entity and (i) the resulting entity fails to assume all of the obligations of such Party or other entity hereunder or (ii) the benefits of any credit support provided pursuant to or related to this Contract fail to extend to the performance by such resulting, surviving or transferee entity of its obligations hereunder or (iii) the resulting entity's creditworthiness is materially weaker than that of such Party or other entity immediately prior to such action.

"MMBtu" shall mean one million British thermal units, which is equivalent to one dekatherm.

"Month" shall mean the period beginning on the first Day of the calendar month and ending immediately prior to the commencement of the first Day of the next calendar month.

"Monthly Deficiency" shall have the meaning set forth in Section 3.6.

"Moody's" means Moody's Investor Services, Inc. or its successor.

"Net Settlement Amount" shall have the meaning set forth in Section 11.4.

"Non-Defaulting Party" shall have the meaning set forth in Section 11.2.

"Notice" shall have the meaning set forth in Section 9.1 hereof.

"Party" shall mean Seller or Buyer individually.

"Parties" shall mean Seller and Buyer collectively.

"Payment Date" shall mean, the later of (i) the 25th day of the Month immediately following the Month during which such Gas is delivered, or (ii) 10 days after receipt of an invoice relating to such Gas; provided, however, that if such day is not a Business Day then the Payment Date shall be the immediately following Business Day.



"Person" means any individual, corporation, partnership, limited liability company, association, joint venture, trust, unincorporated organization, Government Agency or other entity.

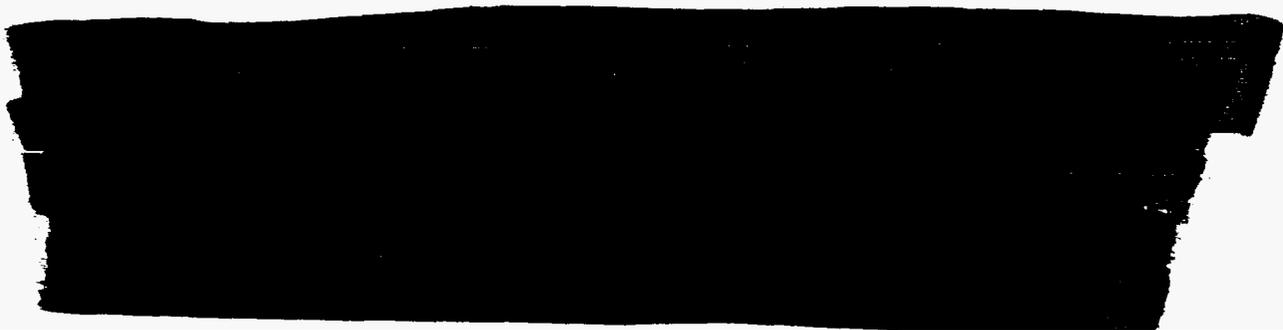
"Price Change" shall have the meaning set forth in Section 3.5.

"Primary Delivery Point" shall mean the interconnection of (i) the Elba Island LNG Terminal and (ii) the Southern Natural Gas Company gas transportation pipeline system.

"Receiving Transporter" shall mean the Transporter receiving Gas at a Delivery Point, or absent such receiving Transporter, the Transporter delivering Gas at a Delivery Point.

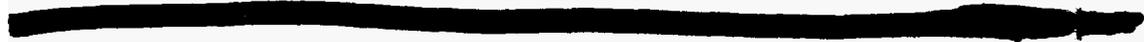
"S&P" means the Standard & Poor's Rating Group (a division of McGraw-Hill, Inc.) or its successor.

"Scheduled Gas" shall mean the quantity of Gas confirmed by Transporter(s) for movement, transportation or management.




"Term" shall have the meaning set forth in Section 2.1 hereof.

"Transporter(s)" shall mean all Gas gathering or pipeline companies, or local distribution companies, acting in the capacity of a transporter, transporting Gas for Seller or Buyer upstream or downstream, respectively, of the Delivery Point(s).



1.2 Interpretation. Unless the context otherwise requires:

(a) Words singular and plural in number will be deemed to include the other and pronouns having masculine or feminine gender will be deemed to include the other.

(b) Any reference in this Contract to any Person includes its successors and permitted assigns and, in the case of any Government Agency, any Person succeeding to its functions and capacities.

(c) Any reference in this Contract to any Section or Annex means and refers to the Section contained in this Contract or in an Annex attached to this Contract.

(d) Other grammatical forms of defined words or phrases have corresponding meanings.

(e) A reference to writing includes typewriting, printing, lithography, photography and any other mode of representing or reproducing words, figures or symbols in a lasting and visible form.

(f) Unless otherwise specified, a reference to a specific time for the performance of an obligation is a reference to that time in the place where that obligation is to be performed.

(g) A reference to a Party to this Contract includes that Party's successors and permitted assigns.

(h) A reference to a document or agreement, including this Contract, includes a reference to that document or agreement as novated, amended, supplemented or restated from time to time.

1.3 Technical Meanings. Words not otherwise defined herein that have well-known and generally accepted technical or trade meanings are used herein in accordance with such recognized meanings, as of the Effective Date.

SECTION 2. TERM; DELIVERY PERIOD

2.1 The term of this Contract (the "Term") shall commence on the Effective Date and shall remain in effect until the expiration of the Delivery Period, unless otherwise extended by written agreement of the Parties.

2.2 In the event that, prior to the first date of the Delivery Period as defined above, Seller and Buyer mutually agree to move up the first day of the Delivery Period, the Parties shall execute a written amendment to this Contract re-defining "Delivery Period" to reflect the new start date thereof.

SECTION 3. PERFORMANCE OBLIGATIONS

3.1 Seller agrees to sell and deliver to Buyer, and Buyer agrees to receive and purchase from Seller, the Contract Quantity on a Firm basis at the Delivery Point(s) each Day during the Delivery Period in accordance with the terms and conditions of this Contract.

3.2 With respect to each Month during the Delivery Period, Buyer shall pay to Seller an amount equal to the product of: (i) the amount of Gas actually delivered by Seller to Buyer in such Month, and (ii) the Contract Price applicable to such Month (as determined pursuant to Section 3.3).

3.3 Unless otherwise agreed between the Parties pursuant to this Section 3.3, the Contract Price with respect to each delivery Day during a particular Month, shall be the price (expressed in U.S. Dollars per MMBtu) for such Month as published in *Inside FERC's Gas Market Report* (as published by The McGraw-Hill Companies, Inc. or its successor), under the heading "Market Center Spot-Gas Prices" "South Louisiana" "Henry Hub" "Midpoint", plus ██████ per MMBtu. For any particular Month during the Term, the Parties may agree to change the Contract Price for such Month from that which is described in the previous sentence to either a fixed dollar amount per MMBtu, or a price based on another index (other than the *Inside FERC* index referenced above), in either case as mutually agreed by the Parties pursuant to the procedures set forth in Section 3.5.

3.4 Unless otherwise agreed between the Parties pursuant to this Section 3.4, the Delivery Point with respect to each delivery Day during a particular Month, shall be the Primary Delivery Point. For any particular Month during the Term, the Parties may agree to change the Delivery Point for such Month to an Alternate Delivery Point pursuant to the procedures set forth in Section 3.5.

3.5 To effect a change to the Contract Price for one or more Months (a "Price Change"), or to effect a change from the Primary Delivery Point to an Alternate Delivery Point for one or more Months (a "Delivery Point Change"), the Party seeking such change must make such request of the other Party prior to 2:30 P.M. Eastern Prevailing Time on the last trading day of the NYMEX gas futures contract (Henry Hub) of the Month immediately preceding the relevant Month or Months for which the change would be effective. Each Party shall exercise reasonable efforts to accept such a proposed change; provided, however, that a Party shall not be required to accept a change that would not be commercially reasonable for such a Party. The Parties acknowledge that Seller's source of Gas for use under this Contract is regasified LNG delivered to the Elba Island LNG Terminal, and therefore any proposed change in Delivery Point that does not allow delivery from the Elba Island LNG Terminal is not commercially reasonable for Seller. If the Party to whom the request is made accepts the proposed change, such agreement between the Parties may be effectuated through a recorded telephone conversation, with the offer and acceptance

constituting the agreement of the Parties. The Parties shall be legally bound from the time they so agree to the terms of such Price Change or Delivery Point Change and may each rely thereon. Any such agreement shall be considered to be a "writing" and to have been "signed" for all purposes hereunder. Notwithstanding the foregoing sentence, the Parties agree that either Party may confirm a telephonic transaction by sending the other Party a Confirmation via facsimile or other mutually agreeable means within a reasonable time of such agreement; provided that the failure of either or both Parties to send a Confirmation shall not invalidate the oral agreement of the Parties. The confirming Party adopts its confirming letterhead, or the like, as its signature on any Confirmation as the identification and authentication of the confirming Party. If the Confirmation contains any provision other than those relating to the terms of the Price Change or Delivery Point Change (i.e. any terms other than the applicable Month and the newly-agreed Contract Price or Delivery Point for such Month), which modify or supplement this Contract, such provisions shall not be binding on the receiving Party; provided that the foregoing shall not invalidate any Price Change or Delivery Point Change agreed to by the Parties. Any failure by either or both Parties to send a Confirmation for any Price Change or Delivery Point Change shall not affect the enforceability of any such Price Change or Delivery Point Change actually entered into nor shall such failure constitute or be deemed to constitute a breach of this Contract. If a sending Party's Confirmation is materially different from the receiving Party's understanding of the agreement concerning the applicable Price Change or Delivery Point Change, such receiving Party shall notify the sending Party in writing (facsimile acceptable) within two Business Days of receipt of such Confirmation and the Parties shall work together to resolve the discrepancies. The failure of the receiving Party to so notify the sending Party in writing by such deadline constitutes the receiving Party's agreement to the terms of the applicable Price Change or Delivery Point Change described in the sending Party's Confirmation. If there are any material differences between timely sent Confirmations governing the same Price Change or Delivery Point Change, then neither Confirmation shall be binding with respect to the differing terms until or unless such differences are resolved including the use of any evidence that clearly resolves the differences in the Confirmations. In the event of a conflict among the terms of (i) a binding Confirmation (including by deemed acceptance as described above), (ii) the oral agreement of the Parties which may be evidenced by a recorded conversation, and (iii) this Contract, the terms of the documents shall govern in the priority listed in this sentence.

3.6 The Parties may agree to a Price Change that results in a fixed price ("Fixed Price") as opposed to a Contract Price that floats based on NYMEX, industry postings, reference publications, or other external market factors or indices. If a Fixed Price is established and, for any reason whatsoever (other than a breach or default by either Party under this Contract), including, without limitation, an event of Force Majeure or any circumstance (other than a breach or default by either Party under this Contract) that would excuse a Party's obligation to deliver or receive Gas under this Contract, Seller delivers or Buyer takes less than the full Contract Quantity for such Month (a "Monthly Deficiency"), then (1) Buyer shall pay Seller an amount equal to such Monthly Deficiency (expressed in MMBtus) multiplied by the amount, if any, by which the Fixed Price exceeds the applicable NYMEX Natural Gas futures contract price for such Month, or (2) Seller shall pay to the Buyer an amount equal to such Monthly Deficiency (expressed in MMBtus) multiplied by the amount, if any, by which the applicable NYMEX Natural Gas futures contract for such Month exceeds the Fixed Price established for such Month.

SECTION 4. TRANSPORTATION, NOMINATIONS AND IMBALANCES

4.1 Seller shall have the sole responsibility for transporting the Gas to the Delivery Point(s). Buyer shall have the sole responsibility for transporting the Gas from the Delivery Point(s).

4.2 The Parties shall coordinate their nomination activities, giving sufficient time to meet the deadlines of the affected Transporter(s). Each Party shall give the other Party timely prior notice, sufficient to meet the requirements of all Transporter(s) involved in the transaction, of the quantities of Gas to be delivered and purchased each Day. Should either Party become aware that actual deliveries at the Delivery Point(s) are greater or lesser than the Scheduled Gas, such Party shall promptly notify the other Party.

4.3 The Parties shall use commercially reasonable efforts to avoid imposition of any Imbalance Charges. If Buyer or Seller receives an invoice from a Transporter that includes Imbalance Charges, the Parties shall determine the validity as well as the cause of such Imbalance Charges. If the Imbalance Charges were incurred as a result of Buyer's receipt of quantities of Gas greater than or less than the Scheduled Gas, then Buyer shall pay for such Imbalance Charges or reimburse Seller for such Imbalance Charges paid by Seller. If the Imbalance Charges were incurred as a result of Seller's delivery of quantities of Gas greater than or less than the Scheduled Gas, then Seller shall pay for such Imbalance Charges or reimburse Buyer for such Imbalance Charges paid by Buyer. Notwithstanding anything to the contrary herein, in the event of Force Majeure, the Parties shall follow the procedures set forth in Section 12.8 and each Party shall be responsible for any Imbalance Charges arising out of its non-conformance with such procedures.

SECTION 5. QUALITY AND MEASUREMENT

All Gas delivered by Seller shall meet the requirements of the Receiving Transporter's pipeline specifications for pipeline quality Gas. The unit of quantity measurement for purposes of this Contract shall be one MMBtu dry. Measurement of Gas quantities hereunder shall be in accordance with the established procedures of the Receiving Transporter.

SECTION 6. TAXES

Seller shall pay or cause to be paid all taxes, fees, levies, penalties, licenses or charges imposed by any Government Agency ("Taxes") on or with respect to the Gas prior to the Delivery Point(s). Buyer shall pay or cause to be paid all Taxes on or with respect to the Gas at the Delivery Point(s) and all Taxes after the Delivery Point(s). If a Party is required to remit or pay Taxes that are the other Party's responsibility hereunder, the Party responsible for such Taxes shall promptly reimburse the other Party for such Taxes. Any Party entitled to an exemption from any such Taxes or charges shall furnish the other Party any necessary documentation thereof. Failure by either Party to furnish such documentation shall not give rise to a breach of this Contract.

SECTION 7. BILLING, PAYMENT AND AUDIT

7.1 Seller shall invoice Buyer for Gas delivered and received in the preceding Month and for any other applicable charges, providing supporting documentation acceptable in industry practice to support the amount charged. If the actual quantity delivered is not known by the billing date, billing will be prepared based on the quantity of Scheduled Gas. The invoiced quantity will then be adjusted to the actual quantity on the following Month's billing or as soon thereafter as actual delivery information is available.

7.2 Buyer shall remit the amount due under Section 7.1 via wire transfer or ACH, in immediately available funds, on or before the Payment Date. Except as otherwise provided in Section 7.3, in the event any payments are due Buyer hereunder, payment to Buyer shall be made in accordance with this Section 7.2.

7.3 In the event payments become due pursuant to Section 13, the performing Party may submit an invoice to the non-performing Party for an accelerated payment setting forth the basis upon which the invoiced amount was calculated. Payment from the non-performing Party shall be due within five (5) Business Days after receipt of invoice.

7.4 If the invoiced Party, in good faith, disputes the amount of any such invoice or any part thereof, such invoiced Party will pay the portion of such amount as it concedes to be correct; provided, however, if the invoiced Party disputes the amount due, it must provide supporting documentation acceptable in industry practice to support the amount paid or disputed. In the event the Parties are unable to resolve such dispute, either Party may pursue any remedy available at law or in equity to enforce its rights pursuant to this Section 7.

7.5 If the invoiced Party fails to remit the full amount payable when due, interest on the unpaid portion shall accrue from the date due until the date of payment at a rate equal to the lower of (i) the then-effective prime rate of interest published under "Money Rates" by The Wall Street Journal, plus two percent per annum; or (ii) the maximum applicable lawful interest rate.

7.6 A Party shall have the right, at its own expense, upon reasonable Notice and at reasonable times, to examine and audit and to obtain copies of the relevant portion of the books, records and telephone recordings of the other Party only to the extent reasonably necessary to verify the accuracy of any statement, charge, payment or computation made under this Contract. This right to examine, audit and obtain copies shall not be available with respect to proprietary information not directly relevant to obligations under this Contract. Such right shall include, but not be limited to, copies of any and all statements and/or records pertaining to transportation of Gas with respect to which any such transportation charges are included in billing and/or invoices hereunder, and/or are the subject of any bona fide dispute between the Parties, and without regard as to whether such records and/or statements were generated by the Party being audited or the relevant Transporter. All invoices and billings shall be conclusively presumed final and accurate and all associated claims for underpayments or overpayments shall be deemed waived unless such invoices or billings are objected to in writing, with adequate explanation and/or documentation, within two years after the Month of Gas delivery. All retroactive adjustments under Section 7 shall be paid in full by the Party owing payment within 30 Days of Notice and substantiation of such inaccuracy.

7.7 The Parties shall net all undisputed amounts due and owing, and/or past due, arising under this Contract such that the Party owing the greater amount shall make a single payment of the net amount to the other Party in accordance with Section 7.2; provided that no payment required to be made pursuant to the terms of Section 10 shall be subject to netting under this Section 7.7.

SECTION 8. TITLE, WARRANTY AND INDEMNITY

8.1 Unless otherwise specifically agreed, title to the Gas shall pass from Seller to Buyer at the Delivery Point(s). Seller shall have responsibility for and assume any liability with respect to the Gas prior to its delivery to Buyer at the specified Delivery Point(s). Buyer shall have responsibility for and assume any liability with respect to said Gas after its delivery to Buyer at the Delivery Point(s).

8.2 Seller warrants that it will have the right to convey and will transfer good and merchantable title to all Gas sold hereunder and delivered by it to Buyer, free and clear of all liens, encumbrances and claims. EXCEPT AS OTHERWISE PROVIDED HEREIN, ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING ANY WARRANTY OF MERCHANTABILITY OR OF FITNESS FOR ANY PARTICULAR PURPOSE, ARE DISCLAIMED.

8.3 Seller agrees to indemnify and defend Buyer and its Affiliates, and their respective agents, employees, officers and directors, and save them harmless from all losses, liabilities or claims including reasonable attorneys' fees and costs of court ("Claims"), from any and all Persons, arising from or out of claims of title, personal injury or property damage from said Gas or other charges thereon which attach before title passes to Buyer, except to the extent attributable to Buyer's negligence or willful misconduct. Buyer agrees to indemnify and defend Seller and its Affiliates, and their respective agents, employees, officers and directors, and save them harmless from all Claims, from any and all persons, arising from or out of claims regarding payment, personal injury or property damage from said Gas or other charges thereon which attach after title passes to Buyer, except to the extent attributable to Seller's negligence or willful misconduct. Each Party shall indemnify, defend and hold harmless the other Party against any taxes for which such Party is responsible under Section 6.

8.4 Notwithstanding the other provisions of this Section 8, as between Seller and Buyer, Seller will be liable for all Claims to the extent that such arise from the failure of Gas delivered by Seller to meet the quality requirements of Section 5.

SECTION 9. NOTICES

9.1 All correspondence, invoices, payments and other communications made pursuant to this Contract (each a "Notice") shall be made to the addresses set forth below for such Party or as otherwise may be specified in writing by the respective Parties from time to time by providing Notice in accordance with this Section 9.1.

If to Buyer:

With respect to Notices that do not relate to invoices or payments:

Progress Energy Florida, Inc.
Attn: Contracts Department
410 S. Wilmington Street (PEB 10)
Raleigh, NC 27601
Fax: 919-546-2649

A copy of any Notice above relating to Sections 8.3, 10, 11, and 19.10 shall also be sent to:

Attn: Assistant General Counsel – Energy
Trading & Marketing
410 S. Wilmington Street (PEB 17)
Raleigh, NC 2760
Fax: 919-546-2920

With respect to Notices that relate to invoices or payments:

Attn: PEF Gas Accounting
410 S. Wilmington Street (PEB 10)
Raleigh, NC 27601
Fax: 919-546-3258

If to Seller:

With respect to Notices that do not relate to invoices or payments:

BG LNG Services, LLC
Attn: President
5444 Westheimer, Suite 1775
Houston, Texas 77056
Fax: 713-599-3781

A copy of any Notice above relating to Sections 8.3, 10, 11, and 19.10 shall also be sent to:

Attn: VP-Legal
5444 Westheimer, Suite 1775
Houston, Texas 77056
Fax: 713-599-3781

With respect to Notices that relate to invoices or payments:

Attn: Financial Controller
5444 Westheimer, Suite 1775
Houston, Texas 77056
Fax: 713-599-3781

9.2 All Notices required hereunder may be sent by facsimile or mutually acceptable electronic means, a nationally recognized overnight courier service, first class mail or hand delivered. Any Notice sent pursuant to Sections 8.3, 10, 11, 12, 15.2, or 19.10 shall not be sent via electronic means.

9.3 Notice shall be given when received on a Business Day by the addressee. In the absence of proof of the actual receipt date, the following presumptions shall apply: Notices sent by facsimile shall be deemed to have been received upon the sending Party's receipt of its facsimile machine's confirmation of successful transmission. If the day on which such facsimile is received is not a Business Day or is after 5:00 p.m. on a Business Day, then such facsimile shall be deemed to have been received on the next following Business Day. Notice by overnight mail or courier shall be deemed received on the next Business Day after it was sent or such earlier time as confirmed by the receiving Party. Notice via first class mail shall be considered delivered five Business Days after mailing.

SECTION 10. CREDIT





SECTION 11. EVENTS OF DEFAULT; REMEDIES

REDACTED

REDACTED

REDACTED

SECTION 12. FORCE MAJEURE

REDACTED

REDACTED

SECTION 13. UNEXCUSED FAILURE TO DELIVER/RECEIVE GAS; REMEDY

REDACTED

REDACTED

SECTION 14. LIMITATIONS

THE PARTIES CONFIRM THAT THE EXPRESS REMEDIES AND MEASURES OF DAMAGES PROVIDED IN THIS AGREEMENT SATISFY THE ESSENTIAL PURPOSES HEREOF. FOR BREACH OF ANY PROVISION FOR WHICH AN EXPRESS REMEDY OR MEASURE OF DAMAGES IS PROVIDED, SUCH EXPRESS REMEDY OR MEASURE OF DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY, THE OBLIGOR'S LIABILITY SHALL BE LIMITED AS SET FORTH IN SUCH PROVISION AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. IF NO REMEDY OR MEASURE OF DAMAGES IS EXPRESSLY PROVIDED HEREIN, THE OBLIGOR'S LIABILITY SHALL BE LIMITED TO DIRECT ACTUAL DAMAGES ONLY, SUCH DIRECT ACTUAL DAMAGES SHALL BE THE SOLE AND EXCLUSIVE REMEDY AND ALL OTHER REMEDIES OR DAMAGES AT LAW OR IN EQUITY ARE WAIVED. NEITHER PARTY SHALL BE LIABLE FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, LOST PROFITS OR OTHER BUSINESS INTERRUPTION DAMAGES, BY STATUTE, IN TORT OR CONTRACT, UNDER ANY INDEMNITY PROVISION OR OTHERWISE. IT IS THE INTENT OF THE PARTIES THAT THE LIMITATIONS HEREIN IMPOSED ON REMEDIES AND THE MEASURE OF DAMAGES BE WITHOUT REGARD TO THE CAUSE OR CAUSES RELATED THERETO, INCLUDING THE NEGLIGENCE OF ANY PARTY, WHETHER SUCH NEGLIGENCE BE SOLE, JOINT OR CONCURRENT, OR ACTIVE OR PASSIVE. TO THE EXTENT ANY DAMAGES REQUIRED TO BE PAID HEREUNDER ARE LIQUIDATED, THE PARTIES ACKNOWLEDGE THAT THE DAMAGES ARE DIFFICULT OR IMPOSSIBLE TO DETERMINE, OR OTHERWISE OBTAINING AN ADEQUATE REMEDY IS INCONVENIENT AND THE DAMAGES CALCULATED HEREUNDER CONSTITUTE A REASONABLE APPROXIMATION OF THE HARM OR LOSS.

SECTION 15. CONDITIONS PRECEDENT

REDACTED



SECTION 16. Intentionally Omitted.

REDACTED

REDACTED

REDACTED




SECTION 18. REPRESENTATIONS AND WARRANTIES

18.1 At all times beginning with the Effective Date (unless otherwise provided below) and ending at the end of the Term, each Party represents and warrants to the other Party that:

- (i) the execution, delivery and performance of this Contract are within its powers, have been duly authorized by all necessary action and do not violate any of the terms and conditions in its governing documents, any contracts to which it is a party or any Law, rule, regulation order or the like applicable to it;
- (ii) it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation;
- (iii) beginning at the time of commencement of any delivery obligations hereunder, it will have all Governmental Approvals required for it to legally perform its obligations under this Contract;
- (iv) this Contract, and each other document executed and delivered in accordance with this Contract constitutes its legally valid and binding obligations enforceable against it in accordance with their respective terms (subject to applicable bankruptcy, reorganization, moratorium or similar Laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application regardless of whether enforcement is sought in a proceeding in equity or at law);
- (v) there are no proceedings similar to those described in Section 11.1 (i) through (v) pending or being contemplated by it or, to its knowledge, threatened against it;
- (vi) except with respect to FERC proceedings in connection with the Cypress Pipeline, there is not pending or, to its knowledge, threatened against it or any of its Affiliates any legal proceedings that could materially adversely affect its ability to perform its obligations under this Contract;
- (vii) no Event of Default with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Contract;
- (viii) it is acting for its own account, has made its own independent decision to enter into this Contract and as to whether this Contract is appropriate or proper for it based upon its own judgment, is not relying upon the advice or recommendations of the other Party in so doing, and is capable of assessing the merits of and understanding, and understands and accepts, the terms, conditions and risks of this Contract;
- (ix) it has entered into this Contract in connection with the conduct of its business and it has the

capacity or ability to make or take delivery of the Gas referred to hereunder and the material economic terms hereof have been subject to individual negotiation by the Parties.

- (x) it is the understanding of both of the Parties that this Contract constitutes a "forward contract" within the meaning of the United States Bankruptcy Code and that each of Buyer and Seller is (i) a "forward contract merchant" within the meaning of the United States Bankruptcy Code, (ii) an "eligible contract participant" as such term is defined in the Commodity Exchange Act, as amended 7 U.S.C. § 1 (a) (12), and (iii) an "eligible commercial entity" as such term is defined in the Commodity Exchange Act, as amended 7 U.S.C. § 1 (a) (11).

18.2 Seller further represents and warrants to Buyer that Seller and/or its Affiliates will either own or hold firm rights to (i) terminalling capacity at the Elba Island LNG Terminal, (ii) LNG supplies; and (iii) transportation capacity to effect delivery to any Alternate Delivery Point(s) (to the extent that the Parties have agreed upon an Alternate Delivery Point that requires Seller to obtain transportation), all to the extent necessary to meet Seller's obligations to Buyer under this Contract.

SECTION 19. MISCELLANEOUS

19.1 Assignment. No assignment of this Contract, in whole or in part, whether by merger and operation of law or otherwise, will be made without the prior written consent of the non-assigning Party, which consent shall not be unreasonably withheld or delayed; provided, however, either Party may transfer its interest to any Affiliate by assignment, merger or otherwise without the prior approval of the other Party if (i) such transfer or assignment is to an entity whose creditworthiness is equal to or better than that of the transferee party immediately preceding the transfer, (ii) such transfer has no adverse tax consequences to the non-transferring Party, (iii) the assignee agrees in writing to be bound to all of the assignor's obligations under this Contract, and (iv) such transfer does not affect any Guarantee (or the benefit to the named beneficiary thereof) that has been previously provided to the non-transferring Party and that was still in effect immediately prior to such transfer.

19.2 Severability. If any term or provision of this Contract or the application thereof to any Person or circumstance is held to be illegal, invalid or unenforceable under any present or future Law or by any Governmental Agency, (a) such term or provision shall be fully severable, (b) this Contract shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (c) the remaining provisions of this Contract shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (d) the Parties shall negotiate in good faith to agree upon legal, valid and enforceable substitute provisions to carry out the purposes and intent of the illegal, invalid or unenforceable terms and provisions.

19.3 Waiver. Any term or condition of this Contract may be waived at any time by the Party hereto that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the Party waiving such term or condition. The failure or delay of either Party to require performance by the other Party of any provision of this Contract shall not affect its right to require performance of such provision unless and until such performance has been waived by such Party in writing in accordance with the terms hereof. No waiver by either Party of any term or condition of this Contract, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Contract on any future occasion.

19.4 Entire Agreement. This Contract sets forth all understandings between the Parties respecting the transaction contemplated herein, and any prior contracts, understandings and representations, whether oral or written, relating to such transaction are merged into and superseded by this Contract. Except as otherwise provided in Section 3.4 hereof, this Contract may be amended only by a writing executed by both Parties.

19.5 Governing Law. The validity, interpretation and performance of this Contract and each of its provisions shall be governed by the applicable laws of the state of New York, without regard to the application

of such state's laws relating to conflicts of laws (except for Section 5-1401 and 5-1402 of the General Obligations Laws).

19.6 Venue. EACH OF THE PARTIES HERETO HEREBY SUBMITS TO THE JURISDICTION OF ANY COURT SITTING OUTSIDE OF THE STATE OF TEXAS, THE STATE OF LOUISIANA, THE STATE OF ILLINOIS, OR THE STATE OF MISSISSIPPI FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS CONTRACT OR THE TRANSACTIONS CONTEMPLATED HEREBY, AND AGREES THAT SUCH COURTS SITTING OUTSIDE OF THE STATE TEXAS, THE STATE OF LOUISIANA, THE STATE OF ILLINOIS, OR THE STATE OF MISSISSIPPI SHALL BE THE EXCLUSIVE FORUMS FOR RESOLVING ANY DISPUTE OR CONTROVERSY UNDER OR WITH RESPECT TO THIS CONTRACT. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDINGS BROUGHT IN SUCH COURTS AND ANY CLAIMS THAT ANY SUCH PROCEEDINGS BROUGHT IN SUCH COURTS HAVE BEEN BROUGHT IN INCONVENIENT FORUMS.

19.7 Waiver of Jury Trial. EACH OF THE PARTIES HERETO HEREBY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE AMONG ANY OF THEM ARISING OUT OF, CONNECTED WITH, RELATING TO OR INCIDENTAL TO THE RELATIONSHIP BETWEEN THEM IN CONNECTION WITH THIS CONTRACT.

19.8 Third Parties. This Contract is intended solely for the benefit of the Parties. Nothing in this Contract shall be construed to create any duty or liability to, or standard of care with reference to, any other Person.

19.9 Headings. The headings and subheadings contained in this Contract are used solely for convenience and do not constitute a part of this Contract between the Parties and shall not be used to construe or interpret the provisions of this Contract.

19.10 Confidentiality. Neither Party shall disclose directly or indirectly without the prior written consent of the other Party the terms of this Contract to a third party (other than the employees, lenders, royalty owners, counsel, accountants and other agents of the Party and its Affiliates, prospective purchasers of all or substantially all of a Party's assets or of any rights under this Contract, provided such Persons shall have agreed to keep such terms confidential) except (i) in order to comply with any applicable Law, order, regulation, or exchange rule (including without exclusion disclosures required by the Securities and Exchange Commission), (ii) to the extent necessary for the enforcement of this Contract, (iii) to the extent necessary to implement any delivery or receipt of Gas under this Contract, or (iv) to the extent such information is delivered to such third Party for the sole purpose of calculating a published index (provided, however, that such information shall be handled in an aggregate form with other data such that it cannot be used to identify the Parties to this Contract). Each Party shall notify the other Party of any proceeding of which it is aware which may result in disclosure of the terms of this Contract (other than as permitted hereunder), if and to the extent that such notification does not violate any order or decree with regard to such proceeding, and shall use reasonable efforts to prevent or limit the disclosure. Subject to Section 14, the Parties shall be entitled to all remedies available at law or in equity to enforce, or seek relief in connection with this confidentiality obligation. Notwithstanding anything to the contrary in this Section 19.10, Buyer shall have the right to provide a copy of this Contract to the Florida Public Service Commission and any other entity that is a party to the relevant docket that has executed a confidentiality agreement to retain such information confidential, without prior notice to or the consent of Seller, in connection with Buyer's attempts to obtain the Florida Public Service Commission's approval of this Contract; provided, however, that at the time Buyer provides this Contract to the Florida Public Service Commission, Buyer shall petition the Florida Public Service Commission to keep confidential for a period of eighteen months certain information contained herein, including without limitation, all information related to the Contract Price and the Contract Quantity. Buyer shall inform Seller within two Business Days if the Florida Public Service Commission denies Buyer's request to keep such

information confidential for such period. In such event, Seller shall have the right to immediately terminate this Contract by written notice to Buyer. During the Term of this Contract, at Seller's request, Buyer shall cooperate with Seller to petition the Florida Public Service Commission for extension of the confidential treatment of the information related to the Contract Price and the Contract Quantity for periods beyond the initial eighteen months.

19.11 Market Disruption Affecting Price Source. The following provisions shall be applicable where the Contract Price is determined by reference to a third-party information source or with respect to instances in which the Spot Price is applied:

19.11.1 Market Disruption. If a Market Disruption Event (as defined below) occurs during the Determination Period (as defined below), the Floating Price (as defined below) for the affected Trading Day(s) (as defined below) shall be determined pursuant to the Floating Price for the first Trading Day thereafter on which no Market Disruption Event exists; provided, however, that if the Floating Price is not so determined within three Business Days after the first Trading Day on which the Market Disruption Event occurred or existed, then the Parties shall negotiate in good faith to agree on a Floating Price (or a method for determining a Floating Price), and if the Parties have not so agreed on or before the 12th Business Day following the first Trading Day on which the Market Disruption Event occurred or existed, then the Floating Price shall be determined in good faith by Buyer by taking the average of two or more dealer quotes. "Market Disruption Event" means, with respect to any Price Source (as defined below), any of the following events (the existence of which shall be determined in good faith by Buyer): (i) the failure of the Price Source to announce or publish information necessary for determining the Floating Price; (ii) the failure of trading to commence or the permanent discontinuation or material suspension of trading in the relevant options contract or commodity on the Exchange (as defined below) or in the market specified for determining a Floating Price; (iii) the temporary or permanent discontinuance or unavailability of the Price Source (iv) the temporary or permanent closing of any Exchange specified for determining a Floating Price; or (v) a material change in the formula for the method of determining the Floating Price. "Price Source" means the publication (or such other origin of reference, including an Exchange) containing (or reporting) the specified price (or prices from which the specified price is calculated). "Floating Price" means the Contract Price that is based upon a Price Source. "Exchange" means, in respect of a price, the exchange or principal trading market specified in the calculation of such price. "Determination Period" means each calendar Month, a part or all of which is within the delivery period during which the relevant price applies. "Trading Day" means a day in respect of which the relevant Price Source published the Floating Price.

19.11.2 Corrections to Published Prices. For purposes of determining the relevant prices for any Day, if the price published or announced on a given Day and used or to be used to determine a relevant price is subsequently corrected and the correction is published or announced by the person responsible for that publication or announcement, either Party may notify the other Party of (i) that correction and (ii) the amount (if any) that is payable as a result of that correction. If a Party gives notice that an amount is so payable, the Party that originally either received or retained such amount will, not later than two Business Days after the effectiveness of that notice, pay, subject to any applicable conditions precedent, to the other Party that amount, together with interest at a rate equal to the lower of (x) the then-effective prime rate of interest published under "Money Rates" by The Wall Street Journal; or (y) the maximum applicable lawful interest rate, for the period from and including the day on which payment originally was (or was not) made to but excluding the day of payment of the refund or payment resulting from that correction.

19.11.3 Calculation of Floating Price. For the purposes of the calculation of a Floating Price, all numbers shall be rounded to three decimal places. If the fourth decimal number is five or greater, then the third decimal number shall be increased by one, and if the fourth decimal number is less than five, then the third decimal number shall remain unchanged.

19.12 Construction. The language used in this Contract is the product of both Parties' efforts and each Party hereby irrevocably waives the benefit of any rule of contract construction which disfavors the drafter of a contract or the drafter of specific language in a contract.

19.13 Recording. The Parties agree that each Party may electronically record all telephone conversations with respect to this Contract between their respective employees, without any special or further notice to the other Party. Each Party shall obtain any necessary consent of its agents and employees to such recording. Each Party waives any objections to the introduction of the recorded conversations into evidence in any proceeding based on the Statute of Frauds, the parol evidence rule, or the best evidence rule. Each Party waives any objection or defense to its authority or the authority of its employee provided that such employee can be identified on the relevant employing Party's recording. No Party may knowingly destroy or erase a recording once the possessing Party becomes aware of an actual dispute in which the recording may reasonably be anticipated to be discoverable.

19.14 Independent Contractors. The Parties are independent contractors. Nothing contained in this Contract shall be deemed to create an association, joint venture, partnership or principal/agent relationship between the Parties hereto or to impose any partnership obligation or liability on either Party. Neither Party shall have any right, power or authority hereunder to enter into any agreement or commitment, act on behalf of, or otherwise bind the other Party in any way.

19.15 Survival. The rights of either Party pursuant to Sections 7, 8.3, 11, 19.10 and any other provision(s) of this Contract that expressly or by implication comes into or remains in force following the termination or expiration of this Contract shall survive the termination or expiration of this Contract.

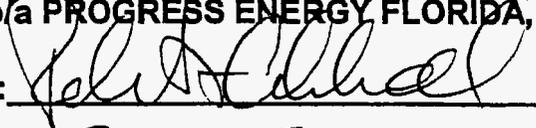
19.16 Imaged Agreement. Any original executed counterpart of this Contract, or other related document may be photocopied and stored on computer tapes and disks (the "Imaged Agreement"). The Imaged Agreement, if introduced as evidence on paper, a tape or other electronic recording of an oral agreement to a Price Change made pursuant to Section 3.4 (the "Transaction Tape"), if introduced as evidence in its original form and as transcribed onto paper, and all computer records of the foregoing, if introduced as evidence in printed format, in any judicial, arbitration, mediation or administrative proceedings, will be admissible as between the Parties to the same extent and under the same conditions as other business records originated and maintained in documentary form. Neither Party shall object to the admissibility of the Transaction Tape, or the Imaged Agreement (or photocopies of the transcription of the Transaction Tape, or the Imaged Agreement) on the basis that such were not originated or maintained in documentary form under the hearsay rule, the best evidence rule, or the parol evidence rule.

19.17 Counterparts. This Contract may be executed in several counterparts, and all such counterparts shall constitute one agreement binding on both Parties hereto and shall have the same force and effect as an original instrument.

(Remainder of page intentionally left blank. Signature page to follow.)

IN WITNESS WHEREOF, the Parties have caused this Contract to be executed by their respective duly authorized officers as of the Effective Date.

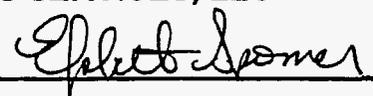
**FLORIDA POWER CORPORATION
d/b/a PROGRESS ENERGY FLORIDA, INC.**

By: 

Name: ROBERT F. CALDWELL ²⁰⁰⁴

Title: VICE PRESIDENT - Regional Ops

BG LNG SERVICES, LLC

By: 

Name: ELIZABETH SPOMER

Title: VICE PRESIDENT

Annex A

REDACTED

REDACTED

REDACTED

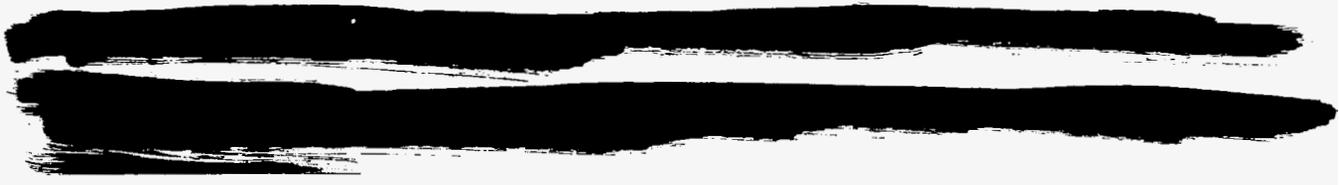
REDACTED

REDACTED

REDACTED

REDACTED

REDACTED



Annex B

REDACTED

REDACTED

REDACTED

REDACTED

**PRECEDENT AGREEMENT
BY AND BETWEEN**

Southern Natural Gas Company

AND

**Florida Power Corporation
d/b/a Progress Energy Florida, Inc.
(Hines Plant and System Supply)**

DATED: December 2, 2004

Table of Contents

<u>Section</u>	<u>Page</u>
1. Firm Service Obligation.....	3
2. Approvals; Cooperation.....	6
3. Acceptance of FERC Authorization.....	7
4. Service Agreement; In-Service Date.....	9
5. Conditions Precedent.....	10
6. Notices.....	15
7. Assignment and Delegation.....	16
8. Term.....	17
9. Miscellaneous Provisions.....	17
Exhibit "A" Transportation Demand	
Exhibit "B" Service Agreement	

PRECEDENT AGREEMENT

This Precedent Agreement is made and entered into as of the 2nd day of December, 2004, by and between Southern Natural Gas Company ("**Southern**"), a Delaware corporation, and Florida Power Corporation d/b/a Progress Energy Florida, Inc. ("**Shipper**"), a Florida Corporation (hereinafter Shipper and Southern are sometimes referred to individually as "**Party**" or collectively as the "**Parties**") pursuant to the following terms, conditions, and representations:

WITNESSETH:

WHEREAS, Southern proposes to design, construct, own and operate an expansion of its existing natural gas pipeline system (the "**Cypress Project**") that extends from a point of interconnection with Southern's existing pipeline facilities downstream of Southern LNG Company, L.L.C.'s ("**Southern LNG**") Elba Island LNG Terminal ("**Elba Island**") in Chatham County, Georgia, to an interconnection with the existing natural gas transmission facilities of Florida Gas Transmission Company ("**FGT**") in Clay County, Florida; and

WHEREAS, the Cypress Project is proposed to consist of and shall herein be defined as (i) approximately 166 miles of 24-inch pipeline; and (ii) a bidirectional meter station at the interconnection of Southern and FGT in Clay County, Florida ("**FGT Interconnection**"); and

WHEREAS, Shipper desires to receive firm transportation service from Southern pursuant to (i) the terms of a Service Agreement containing substantially the same terms and conditions as set forth below in Section 1; and (ii) Rate

Schedule FT under Volume I of Southern's FERC Gas Tariff ("**Tariff**"), hereinafter the "**FT Service**"; and

WHEREAS, Shipper will also subscribe to an expansion on FGT's pipeline system into or from Southern's system at the FGT Interconnection in order to receive gas at Shipper's generating plant in Polk County, Florida, and other delivery points on FGT's system for Shipper's system supply ("**FGT Expansion**"); and

WHEREAS, to effectuate this proposal to construct the Cypress Project and provide FT service to Shipper, Southern will file an application with the Federal Energy Regulatory Commission ("**FERC**") for authorization to construct, install, operate and maintain the Cypress Project for the purpose of providing the FT Service to Shipper; and

WHEREAS, Southern will hold an open season to solicit bids from other prospective shippers interested in subscribing for firm transportation service; and

WHEREAS, Southern and Shipper now desire to enter into this binding precedent agreement ("**Precedent Agreement**") setting forth the terms and conditions under which the Parties may subsequently execute a definitive service agreement for the FT Service on Southern's system ("**Service Agreement**").

NOW THEREFORE, in consideration of the mutual covenants set forth in this agreement, and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, Southern and Shipper agree as follows:

1. Firm Service Obligation.

Subject to the terms and conditions of this Precedent Agreement, any terms and conditions which may be imposed by the FERC and the terms and conditions of Southern's Tariff, Southern agrees to provide to Shipper FT Service as described below. Such FT Service shall be provided in accordance with the terms of a Service Agreement to be executed between Southern and Shipper. A proforma copy of the Service Agreement is set forth in Exhibit "B" attached hereto and made a part hereof. Such Service Agreement shall contain the terms and conditions that are substantially in accordance with the following:

- (a) The FT Service will be for the Transportation Demand ("TD") stated in MMBtu as set forth on Exhibit "A" attached hereto, commencing on the date that both of (1) the Southern facilities comprising the Cypress Project, and (2) the FGT Expansion are capable of providing such transportation service on a firm daily basis (the "Commencement Date").
- (b) The firm Receipt Point designated on Exhibit "A" to the Service Agreement shall be the Elba Island Receipt Point and the firm Delivery Point designated on Exhibit "B" to the Service Agreement shall be the FGT Interconnection. Shipper shall have secondary rights to alternate receipt and delivery points on Southern's system as set forth in Southern's Tariff.
- (c) The initial term of the FT Service described in Section (a) above shall be twenty (20) years from the Commencement Date of FT

Service set forth above (the “**Primary Term**”). Shipper shall have the right to extend the Primary Term of the Service Agreement for the FT Service described in Section (a) above for one or more periods of three (3) years at Southern’s then applicable maximum lawful rate (any such period being hereinafter referred to as an “**Evergreen Extension**”) by providing Southern with written notice of the exercise of such right at least two (2) years prior to the end of the Primary Term or any Evergreen Extension thereto.

- (d) The rate to be charged Shipper for the FT Service shall be a negotiated reservation rate of [REDACTED] per MMBtu for the Primary Term of this Precedent Agreement and successor Service Agreement, plus the maximum commodity charge for the applicable zone(s) of service as set forth in Southern’s Tariff. The rate to be charged Shipper for fuel under this Precedent Agreement and successor Service Agreement shall be Southern’s generally applicable and approved fuel charge established pursuant to Southern’s Tariff.
- (e) In addition to the rates provided for under Section 1(d) above, Shipper will compensate Southern for any other FERC approved, generally applicable charges or surcharges applicable to the FT Service.
- (f) Southern shall have the unilateral right to file for generally applicable changes in its maximum rates or any other provisions in

its FERC Gas Tariff and the Service Agreement including, but not limited to, provisions relating to compensation for fuel and lost and unaccounted for gas or electric usage applicable to the service hereunder. Subject to the provisions in Section 1(d) above, such changes shall be effective and applicable, subject to refund as determined by the FERC, after the required notice or at the end of any suspension period ordered by the FERC, and any such rates, charges, surcharges or terms and conditions of service accepted by the FERC shall be effective under the Service Agreement. It is understood and agreed that the generally applicable fuel retention percentage and the surcharges set forth in Section 1(e) above are designed to change from time to time consistent with Southern's FERC Gas Tariff and FERC Regulations. With respect to the services provided under this Precedent Agreement (and any successor Service Agreement), and notwithstanding the foregoing, (i) Shipper shall not have the right to intervene and protest in any rate filing by Southern with respect to changes in Southern's recourse rates during the Primary Term of this Precedent Agreement or the Service Agreement, and (ii) Shipper shall have the right to intervene and protest (a) any filing involving generally applicable charges or surcharges in accordance with Sections 1(e) above, or (b) any filing involving the terms and conditions of service in Southern's Tariff, or (c) any rate filing applicable to services

received by Shipper from Southern other than those provided hereunder.

- (g) Notwithstanding the rate cap set forth in Section 1(d) above, if, while the negotiated reservation rate of ██████ per MMBtu is in effect, Southern's costs to provide transportation services are adversely affected as a result of State, local or federal legislation or regulation specifically including, but not limited to orders, regulations, rules or opinions by the FERC, Environmental Protection Agency, Department of Transportation, U.S. Army Corps of Engineers, Internal Revenue Service, U. S. Fish and Wildlife Service or any other State or federal agency or court of law and/or any changes in Generally Accepted Accounting Principles (GAAP), that has a general or industry wide effect which causes the total cost of service to Southern of providing Shipper the transportation service to be materially and adversely increased; then Southern may provide written notice to Shipper requesting to increase Shipper's rates to take into account the costs associated with the legislation or regulation. For purposes of the previous sentence, "materially and adversely" shall be defined as an overall increase in Southern's total cost of service to provide service to Shipper as contemplated by this Precedent Agreement of 25% or more (after taking into consideration any offsetting decreases in other costs or increases in other revenues from regulatory events such as those described

above), calculated on a net present value basis, discounted at an 8% discount rate. Such written notice requesting an adjustment in the rates shall specifically state (i) the legislation or regulation impacting such costs or revenues; (ii) the obligation by Southern to comply with such regulation or legislation; and (iii) how, and the extent to which, such legislation or regulation materially and adversely increases Southern's total cost of service to provide service to Shipper as contemplated by this Precedent Agreement. Once Southern has provided such notice, the Parties shall meet within thirty (30) days to discuss possible means of correcting the material and adverse impact and shall attempt in good faith to negotiate a mutually acceptable solution, including, but not limited to, an amendment to the rate discount through an increase of the reservation or transportation charges. If the Parties are unable within 120 days after the receipt of such notice to agree upon a mutually acceptable solution, then either Party may, upon 30 days prior written notice to the other, invoke alternative dispute resolution procedures consistent with the commercial arbitration rules of the American Arbitration Association in order to determine how to mitigate the adverse impact in light of all of the facts and circumstances existing at that time. Any rate increase agreed upon by Southern and Shipper or that is approved through the alternate dispute resolution procedures shall only go into effect prospectively

commencing upon the date that either the Parties agree upon the rate change or such rate change is approved through the alternate dispute resolution procedures. Notwithstanding the foregoing, no rate increase or increases adopted pursuant to this Section 1(g), whether agreed to by Southern and Shipper or approved through the alternate dispute resolution procedures described herein, shall result in an aggregate increase in the negotiated reservation rate provided hereunder of more than twenty-five per cent (25%).

2. Approvals; Cooperation.

- (a) Upon execution of this Precedent Agreement, Southern and Shipper agree to promptly seek, and to exercise good faith efforts to cause any and all other parties whose participation is required to promptly seek the regulatory approvals, including from the FERC all necessary authorizations under the Natural Gas Act (the “**FERC Authorizations**”), as may be necessary to construct, install and operate the Cypress Project consistent with the terms of this Precedent Agreement. Southern and Shipper reserve the right to file and prosecute applications for any required authorizations, any supplement or amendment to an application, and any court review as each deems in its best interests.
- (b) Southern shall provide Shipper from time to time, but in no event less frequently than once a month, with updates of its progress in obtaining the FERC Authorizations to construct the Cypress Project.

- (c) Southern and Shipper each agree to execute and deliver all other additional instruments and documents, and to do all other acts, as may be reasonably necessary to effectuate the terms and provisions of this Precedent Agreement.
- (d) Southern shall not be obligated to prosecute its application with the FERC or seek any other regulatory approvals or permit applications or proceed with the construction of the Cypress Project unless and until it holds an open season soliciting bids from other shippers.
- (e) Once the open season for subscription for the Cypress Project has closed and been finalized, Southern will actively pursue design, engineering and title work as necessary to facilitate the filing of the FERC Authorizations and the FERC review process, but it shall not be required to commit significant capital expenditures for right-of-way or materials for the project unless and until it receives a Preliminary Determination, as defined in Section 5(a)(i)(B) below, from the FERC approving the commercial aspects of the filing in a manner acceptable to Southern or until all conditions precedent set forth in Section 5(b) below are met by Shipper.

3. Acceptance of FERC Authorization.

Within 10 business days of Southern receiving the FERC Authorizations, Southern shall notify Shipper of its intent to accept or reject the FERC Authorizations. Shipper shall, within fifteen (15) days after the date Southern provides an electronic copy to Shipper by e-mail of FERC's

Preliminary Determination on the Cypress Project, notify Southern in writing of any terms or conditions in the Preliminary Determination that materially and adversely affect Shipper, as further defined below, and whether Shipper has any material objections to such Preliminary Determination. Neither Southern, in the case of the FERC Authorizations, nor Shipper, in the case of the Preliminary Determination, shall be under any obligation to accept the respective terms of the FERC Authorizations or Preliminary Determination if they contain terms or conditions which are reasonably likely to have a material and adverse effect. A material and adverse effect shall be defined as (i) having a material and adverse impact on the financial benefits to either Southern or Shipper arising out of the transactions contemplated hereby, or (ii) imposing upon Southern or Shipper material business or regulatory risks, as Southern or Shipper, respectively, in their sole discretion shall determine or (iii) being directly contrary to the terms and conditions contained in this Precedent Agreement. Such material business or regulatory risks could include, but not be limited to, the ability of Southern to obtain rolled-in rate treatment for the Cypress Project.

Notwithstanding the above, in the event the FERC Authorizations or Preliminary Determination contain unsatisfactory, material terms and conditions consistent with the provision described above, Shipper and Southern agree that, prior to the date by which rehearing must be requested of the Preliminary Determination in the case where Shipper objects to the

Preliminary Determination or the date that Southern must accept the certificate under Section 157.20 of the FERC Regulations in the case where Southern objects to the FERC Authorizations, Southern and Shipper will discuss potential options to adjust the rate set forth above in Paragraph 1(d) in order to compensate, as appropriate, (i) Southern for accepting the certificate and proceeding with the Cypress Project and the transaction contemplated herein, and (ii) Shipper for accepting the Preliminary Determination and proceeding with the transaction contemplated herein. If the Parties can agree on the means to adjust the rate, then they will document such agreement by execution of an amendment to this agreement or execution of a Service Agreement with the applicable terms prior to the date by which rehearing requests are due for the Preliminary Determination or Southern is required to accept the FERC certificate. In the event that Shipper issues notice in writing to Southern of its objection to the terms of the Preliminary Determination or Southern issues notice in writing to Shipper of its objection to the terms of the FERC Authorizations, and the Parties cannot agree on the means to adjust the rate, then the Party issuing the notice of objections shall have the right to terminate this Precedent Agreement. Such right must be exercised by written notice to the other Party provided, respectively, by Shipper no later than the date upon which rehearing requests for the Preliminary Determination are due or by Southern no later than twenty-nine (29) days after issuance of the certificate and such right to terminate under this Section 3 shall be deemed to be

waived if such right is not exercised by providing such notice in the manner and within the times specified herein. In the event either Party provides the other Party with notice of its objection to the Preliminary Determination or the terms of the FERC Authorizations as set forth above but does not exercise its right to terminate this Precedent Agreement under this Section 3, the Parties shall remain bound to perform their obligations under this Precedent Agreement.

Nothing contained herein shall prevent Southern or Shipper from seeking rehearing of any unfavorable term or condition contained in the Preliminary Determination or the FERC Authorizations in a manner that is consistent with the terms of this Precedent Agreement or the Service Agreement, even if Southern accepts the certificate as provided above.

4. Service Agreement; In-Service Date.

- (a) Subject to the satisfaction or waiver of the conditions precedent set forth in Section 5 below, within ten (10) days of Southern filing with the FERC a letter of acceptance, Southern and Shipper shall execute and deliver a standard form of firm Service Agreement as set forth in Exhibit "B", attached hereto and made a part hereof, that incorporates terms and conditions that are substantially in accordance with Section 1 above.
- (b) Upon execution and delivery of the Service Agreement by each Party and once all of the Conditions Precedent set forth in Section 5 below are met or waived, Southern will use due diligence to

construct and install the Cypress Project to commence the FT Service by May 1, 2007, or such other mutually agreeable date (the "In Service Date"). Shipper agrees and understands that any delays in receiving FERC approval may cause delays in reaching the In Service Date. Southern and Shipper will discuss any changes to the In Service Date based on the status of the regulatory process. At Shippers request, Southern agrees to timely review with Shipper its design drawings and specifications, bill of material, bid results, and construction contract and specifications (collectively, the "Construction Documents") for the construction of the Cypress Project to Shipper so that Shipper is kept abreast of Southern's construction progress.

5. Conditions Precedent.

- (a) Notwithstanding any of the foregoing to the contrary, the obligation of Southern to construct, install and operate the Cypress Project and to execute the Service Agreement is subject to the fulfillment of condition (i)(A) and the waiver by Southern or fulfillment of conditions (i)(B), (ii), and (iii) as follows:

- (i) receipt and acceptance by Southern, as provided in Section 3 above, of (A) and (B) below which shall be collectively referred to as the "Government Authorizations."

(A) authorizations from the FERC; the United States Army Corps of Engineers, the U.S. Fish and Wildlife Service, and any

other state and federal regulatory agencies, as necessary, to construct, install and operate the Cypress Project on or before

[REDACTED] This condition precedent may not be waived by Southern; and

(B) FERC approval of the terms of service set forth above in Section 1, including, without limitation, the rates hereunder in accordance with the terms of this Precedent Agreement in the form of a Preliminary Determination ("Preliminary Determination") on or before [REDACTED] and

(ii) receipt by Southern of approval from the El Paso Corporation Board of Directors to construct, install and operate the Cypress Project on or before January 31, 2005; and

(iii) receipt by Southern from Shipper and an additional shipper or shippers for FT Service from the Cypress Project of [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Southern shall pursue satisfaction of each of the foregoing conditions precedent on a due diligent basis. If each of the conditions precedent shall not have been satisfied on terms and conditions acceptable to Southern or, with respect to conditions (i)(B), (ii), and (iii) only, waived by Southern on or before the date indicated, then Southern or Shipper may terminate this Agreement

by giving written notice to the non-terminating Party at any time after the date the applicable condition precedent was to be satisfied or waived as set forth above, but prior to the satisfaction or waiver of the applicable condition precedent. Upon such termination, neither Southern nor Shipper shall have any further obligations under this Precedent Agreement. Such notice shall be effective as of the date it is delivered to the U. S. Mail for delivery by certified mail, return receipt requested.

(b) Notwithstanding any of the foregoing to the contrary, the obligation of Shipper to execute the Service Agreement and to perform the obligations hereunder is subject to the fulfillment or waiver by Shipper of the following conditions precedent (i), (ii), (iii), (iv), and (v), and the fulfillment of the following condition precedent (vi):

- (i) receipt by Shipper of approval from the Progress Energy Florida, Inc. Board of Directors to execute the Service Agreement and subscribe to the FT Service as provided herein on or before January 31, 2005; and
- (ii) execution by Shipper of an agreement with FGT to provide Shipper with firm transportation on FGT's system from the FGT interconnection with a TD equal to the FGT/TD's shown on Exhibit "A" attached hereto, on or before December 6, 2004; and

- (iii) receipt and acceptance by Shipper of all authorizations, approvals and/or exemptions from the Florida Public Service Commission and from any other regulatory body having jurisdiction necessary for Shipper to construct, own and operate an expansion at the Hines Generating Plant in Polk County, Florida, on or before May 1, 2005; and
- (iv) execution by Shipper of a satisfactory agreement, as determined in Shipper's sole discretion, with BG LNG Services, LLC to provide the natural gas supplies at Elba Island to serve Shipper's Hines Generating Plant and Shipper's other system supply requirements on or before December 6, 2004; and
- (v) receipt and acceptance by Shipper of all authorizations, approvals and/or exemptions from the Florida Public Service Commission and from any other regulatory body having jurisdiction necessary for Shipper on or before June 15, 2005 to (a) to contract for fuel from BG LNG Services, LLC at Elba Island to serve Shipper's Hines Generating Plant in Polk County, Florida, and Shipper's other system supply requirements, (b) to contract for firm transportation pursuant to this Precedent Agreement (and any successor service agreement), and (c) to contract for firm transportation on

FGT pursuant to the agreement referenced in subsection 5(b)(ii) above; and

- (vi) demonstration to Southern's satisfaction on or before January 31, 2005, that Shipper is creditworthy to perform its financial obligations required under the terms of this Precedent Agreement that would support the construction of the Cypress Pipeline by demonstrating Shipper's ability to sustain the transaction under its own capital structure, or produce Southern with credit assurances of either (i) an acceptable intracorporate guarantee or (ii) letter of credit or other comparable surety with the value of at least two and one-half (2 ½) years of transportation demand payments at Shipper's MDQ set forth above in Section 1(a). Notwithstanding the date set forth above in which the condition precedent must be satisfied, Shipper shall be obligated to sustain its showing of creditworthiness throughout the term of the Service Agreement by providing Southern with one of the acceptable credit assurances listed above. This condition precedent may not be waived by Shipper.

Shipper shall pursue satisfaction of each of the foregoing conditions precedent on a due diligent basis. If each of the conditions precedent shall have not been satisfied or, with respect to conditions (i), (ii), (iii), (iv), and

(v) only, waived by Shipper on or before the date indicated, then Shipper or Southern may terminate this Agreement by giving written notice to the other Party thereof at any time after the date the applicable condition precedent was to be satisfied or waived, but prior to the satisfaction or waiver of the applicable condition precedent. Upon such termination, neither Southern nor Shipper shall have any further obligations under this Precedent Agreement. Such notice shall be effective as of the date it is delivered to the U. S. Mail for delivery by certified mail, return receipt requested.

(c) The Government Authorizations required by Sections 5(a)(i) and 5(b)(iii) and (v) shall be final and duly granted without contingency by the authorities having jurisdiction; provided, however, that Southern or Shipper may, at their option, elect to waive the condition that such approvals be final.

6. **Notices.** Notices made pursuant to the terms of this Precedent Agreement shall be sent to:

If Southern: Southern Natural Gas Company
Post Office Box 2563
Birmingham, Alabama 35202-2563
Attention: Director, Business Development
Phone: 205/325-7146
Fax: 205/325-3787

If Shipper: Progress Energy Florida, Inc.
410 S. Wilmington Street (PEB 10)
Raleigh, North Carolina 27601
Attention: Contract Administration
Phone: 919/546-4280
Fax: 919/546-2649

James H. Jeffries IV.
Nelson Mullins Riley & Scarborough L.L.P.
Bank of America Corporate Center, Suite 2400
100 North Tryon Street
Charlotte, North Carolina 28202-4000
Office: (704) 417-3103
Facsimile: (704) 417-3014

Either Party may change its address by written notice to the other Party. Notices given to change the above addresses shall be deemed to have been effectively given (i) upon the fifth business day after the notice, properly addressed and postpaid, has been placed in the United States mail; (ii) upon confirmation of receipt, if delivered by facsimile or other similar means; or (iii) in accordance with the dates and time provided for overnight delivery service.

7. Assignment and Delegation.

- (a) Any entity that succeeds by purchase, merger, or consolidation to the properties substantially as an entirety of either Southern or Shipper, as the case may be, shall be entitled to the rights and subject to the obligations set out in this Precedent Agreement and the executed Service Agreement.
- (b) Either Party may, without the consent of the other Party, assign any of its rights hereunder to an Affiliate of assignor, but the assignor shall not be relieved of its obligations under this Precedent Agreement until the nonassigning Party receives an agreement from the assignee that it is assuming all the terms and conditions hereto and such assignee is financially and technically capable of meeting such terms and

conditions. The assignor shall provide written notice of the assignment to the other Party to this Precedent Agreement as soon as practicable after such assignment. For the purpose of this Section 7(b), the term "Affiliate" shall mean an individual or entity that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with another individual or entity. The terms "controls," "controlled," and "control" in the preceding sentence shall mean the possession, direct or indirect, of the power to direct the management and policies of an entity, whether through the ownership of voting securities or otherwise.

- (c) Except as provided above in Sections 7(a) or 7(b) of this Precedent Agreement, no assignment of rights or delegation of duties under this Precedent Agreement shall be made unless there first shall have been obtained the written consent of Shipper, in the event of an assignment or delegation by Southern, or the written consent of Southern, in the event of an assignment or delegation by Shipper, such consents not to be unreasonably withheld. Southern and Shipper agree, however, that the restrictions on assignment contained in this Paragraph shall not in any way prevent either Southern or Shipper from pledging or mortgaging its rights hereunder as security for its indebtedness.

8. Term.

Subject to the provisions of Section 5 hereof, this Precedent Agreement shall remain in full force and effect until it is superceded by the execution by the

Parties of an effective Service Agreement as provided in Section 4 above or otherwise terminated in accordance with the provisions of this Precedent Agreement, except for the provisions of Sections 1 and 9 hereof which shall survive the execution of an effective Service Agreement and remain binding and effective on the Parties in accordance with their respective terms.

9. Negotiated Rate for Future Cypress Project Expansions

In the event that BG LNG Services LLC does not satisfy or waive the conditions precedent in its Precedent Agreement with Southern for the Cypress Project to subscribe to Phase II and/or Phase III of the Cypress Project by the dates set forth in such Precedent Agreement, as such Phases are defined in the FERC Authorizations for the Cypress Project referenced above in Section 2(a), Shipper shall have the right to subscribe to up to ████████ MMbtu of such expansion capacity per phase provided that Southern can achieve adequate subscription from other shippers to make the project economical to Southern. In conjunction with such right, Southern and Shipper agree that the reservation rate to be charged Shipper for each phase, respectively, shall be the lower of: (a) the recourse rate filed by Southern for the applicable expansion facilities; or (b) the lowest rate charged by Southern or paid by other shippers for the respective Cypress expansion capacity; or (c) for Phase II only, ████████ if Shipper subscribes for the expansion capacity within ninety (90) days after being notified by Southern that the expansion capacity is available; provided, however, that such notice shall not be sent to Shipper any earlier than January 2, 2008.

10. Miscellaneous Provisions.

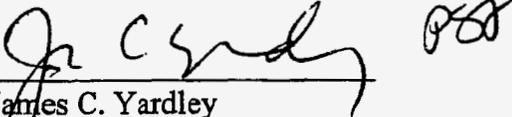
- (a) Except as provided otherwise in this Precedent Agreement, no modification of the terms and provisions of this Precedent Agreement shall have effect unless contained in a writing executed by both Southern and Shipper.
- (b) This Precedent Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same agreement.
- (c) This Precedent Agreement shall become effective on the date first written above and shall continue in effect until terminated pursuant to the terms and condition herein.
- (d) Anything in this Agreement to the contrary notwithstanding, neither party hereto shall be liable to the other party for any consequential, incidental or punitive damages arising out of, or related to a breach of this Agreement.
- (e) If a court of competent jurisdiction declares any provision of this Precedent Agreement unenforceable, then that provision shall be severed from this Precedent Agreement, which shall otherwise remain in full force and effect and be construed as if it did not contain the severed provision.
- (f) Except as expressed otherwise in this Precedent Agreement, nothing expressed or implicit in this Precedent Agreement shall confer on

any person other than Southern and Shipper any rights or remedies under or by reason of this Precedent Agreement.

- (g) The titles to the paragraphs in this Precedent Agreement are included only for the convenience of reference and shall have no effect on, or be deemed a part of, the text of this Precedent Agreement.
- (h) The Parties expressly agree that the laws of the State of Alabama, without regard for any rules for conflicts of law, shall govern the validity, effect, construction, and interpretation of this Precedent Agreement.
- (i) This Precedent Agreement constitutes the entire agreement between the Parties and no waiver by either Party or any default of either Party under this agreement shall operate as a waiver of any subsequent default whether it is of a like or different character.

IN WITNESS WHEREOF, the Parties hereto have caused this Precedent Agreement to be duly executed by their proper officers, duly authorized as of the date first hereinabove written.

Southern Natural Gas Company



James C. Yardley
President

**Florida Power Corporation
d/b/a Progress Energy Florida, Inc.**



By: ROBERT F. (A) [unclear]

Its: VCE PRESIDENT - REG. COMM. OFF.

EXHIBIT "A"
SHIPPER TRANSPORTATION DEMAND

YEARS ¹	SEASON	SPAN	TD/MMBtu	FGTTD
2007	Summer	May-Sept.	██████████	██████████
2007-08	Winter	Oct.-Apr.	██████████	██████████
2008	Summer	May-Sept.	██████████	██████████
2008-09	Winter	Oct.-Apr.	██████████	██████████
2009-26	Summer	May-Sept.	██████████	██████████
2009-27	Winter	Oct.-Apr.	██████████	██████████

¹ The actual start date and end date for the FT Service will be determined based on the "Commencement Date" as set forth in Section 1(a) above in the Precedent Agreement and the "Primary Term" as set forth in Section 1(c) above.

PRO FORMA
FIRM TRANSPORTATION SERVICE AGREEMENT
UNDER RATE SCHEDULE FT AND/OR RATE SCHEDULE FT-NN

THIS AGREEMENT, made and entered into as of this _____ day of _____, _____, by and between Southern Natural Gas Company, a Delaware corporation, hereinafter referred to as "Company", and Florida Power Corporation d/b/a Progress Energy Florida, Inc., a Florida corporation, hereinafter referred to as "Shipper".

WITNESSETH

WHEREAS, Company is an interstate pipeline, as defined in Section 2(15) of the Natural Gas Policy Act of 1978 (NGPA); and

WHEREAS, Shipper has requested firm transportation pursuant to Rate Schedule FT and/or FT-NN of various supplies of gas for redelivery for Shipper's account and has submitted to Company a request for such transportation service in compliance with Section 2 of the General Terms and Conditions applicable to such Rate Schedules; and/or

WHEREAS, Shipper may acquire, from time to time, released firm transportation capacity under Section 22 of the General Terms and Conditions of Company's FERC Gas Tariff; and

WHEREAS, Company has agreed to provide Shipper with transportation service of such gas supplies or through such acquired capacity release in accordance with the terms and conditions of this Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE I
TRANSPORTATION QUANTITY

1.1 Subject to the terms and provisions of this Agreement, Rate Schedule FT and/or FT-NN, as applicable, and the General Terms and Conditions thereto, Shipper agrees to deliver or cause to be delivered to Company at the Receipt Point(s) described in Exhibit A and Exhibit A-1 to this Agreement, and Company agrees to accept at such point(s) for transportation under this Agreement, an aggregate quantity of natural gas per day up to the total Transportation Demand set forth on Exhibit B hereto. Company's obligation to accept gas on a firm basis at any Receipt Point is limited to the Receipt Points set out on Exhibit A and to the Maximum Daily Receipt Quantity (MDRQ) stated for each such Receipt Point. The sum of the MDRQ's for the Receipt Points on Exhibit A shall not exceed the Transportation Demand.

1.2 Subject to the terms and provisions of this Agreement, Rate Schedule FT and/or FT-NN, as applicable, and the General Terms and Conditions thereto, Company shall deliver a thermally equivalent quantity of gas, less the applicable fuel charge as set forth in the applicable FT or FT-NN Rate Schedule, to Shipper at the Delivery Point(s) described in Exhibit B and Exhibit B-1 hereto. Company's obligation to redeliver gas at any Delivery Point on a firm basis is limited to the Delivery Points specified on Exhibit B and to the Maximum Daily Delivery Quantity (MDDQ) stated for each such Delivery Point and in no event shall Shipper be entitled to deliveries in excess of the MDDQ such that if Shipper elects to take gas at an Exhibit B-1 Delivery Point then the MDDQ at its Exhibit B Delivery Points will be reduced proportionately. The sum of the MDDQ's for the Delivery Points on Exhibit B shall equal the Transportation Demand.

1.3 In the event Shipper is the successful bidder on released firm transportation capacity under Section 22 of the Company's General Terms and Conditions, Company will promptly email to Shipper the terms of the Capacity Release Transaction. Upon the issuance of the email, subject to the terms, conditions and limitations hereof and of Company's Rate Schedules FT and FT-NN, Company agrees to provide the released firm transportation service to Shipper under Rate Schedule FT or FT-NN, the General Terms and Conditions thereto, and this Agreement.

ARTICLE II CONDITIONS OF SERVICE

2.1 It is recognized that the transportation service hereunder is provided on a firm basis pursuant to, in accordance with and subject to the provisions of Company's Rate Schedule FT and/or FT-NN, and the General Terms and Conditions thereto, which are contained in Company's FERC Gas Tariff, as in effect from time to time, and which are hereby incorporated by reference. In the event of any conflict between this Agreement and the terms of the applicable Rate Schedule, the terms of the Rate Schedule shall govern as to the point of conflict. Any limitation of transportation service hereunder shall be in accordance with the priorities set out in Rate Schedule FT and/or FT-NN, as applicable, and the General Terms and Conditions thereto.

2.2 This Agreement shall be subject to all provisions of the General Terms and Conditions applicable to Company's Rate Schedule FT and/or FT-NN as such conditions may be revised from time to time. Unless Shipper requests otherwise, Company shall provide to Shipper the filings Company makes at the Federal Energy Regulatory Commission ("Commission") of such provisions of the General Terms and Conditions or other matters relating to Rate Schedule FT or FT-NN.

2.3 Company shall have the right to discontinue service under this Agreement in accordance with Section 15.3 of the General Terms and Conditions hereto.

2.4 The parties hereto agree that neither party shall be liable to the other party for any special, indirect, or consequential damages (including, without limitation, loss of

profits or business interruptions) arising out of or in any manner related to this Agreement.

2.5 This Agreement is subject to the provisions of Part 284 of the Commission's Regulations under the NGPA and the Natural Gas Act. Upon termination of this Agreement, Company and Shipper shall be relieved of further obligation to the other party except to complete the transportation of gas underway on the day of termination, to comply with the provisions of Section 14 of the General Terms and Conditions with respect to any imbalances accrued prior to termination of this Agreement, to render reports, and to make payment for all obligations accruing prior to the date of termination.

ARTICLE III NOTICES

3.1 Except as provided in Section 8.6 herein, notices hereunder shall be given pursuant to the provisions of Section 18 of the General Terms and Conditions to the respective party at the applicable address, telephone number, facsimile machine number or e-mail addresses provided by the parties on Appendix E to the General Terms and Conditions or such other addresses, telephone numbers, facsimile machine numbers or e-mail addresses as the parties shall respectively hereafter designate in writing from time to time.

ARTICLE IV TERM

4.1 Subject to the provisions hereof, this Agreement shall become effective as of the date first hereinabove written and shall be in full force and effect for the primary term(s) set forth on Exhibit B hereto, if applicable, and shall continue and remain in force and effect for successive evergreen terms specified on Exhibit B hereto unless canceled by either party giving the required amount of written notice specified on Exhibit B to the other party prior to the end of the primary term(s) or any extension thereof.

4.2 In the Event Shipper has not contracted for firm Transportation Demand under this Agreement directly with Company, as set forth on Exhibit B hereto, then the term of this Agreement shall be effective as of the date first hereinabove written and shall remain in full force and effect for a primary term through the end of the month and month to month thereafter unless canceled by either party giving at least five (5) days written notice to the other party prior to the end of the primary term or any extension thereof, provided however, this agreement will automatically terminate if no nominations are requested during a period of 12 consecutive months. It is provided, however that this Agreement shall not terminate prior to the expiration of the effective date of any Capacity Release Transaction.

ARTICLE V
CONDITIONS PRECEDENT

5.1 Unless otherwise agreed to by the parties, the terms of Rate Schedule FT and/or FT-NN, as applicable, and the General Terms and Conditions thereto, shall apply to the acquisition of construction of any facilities necessary to effectuate this Agreement. Other provisions of this Agreement notwithstanding, company shall be under no obligation to commence service hereunder unless and until (1) all facilities, of whatever nature, as are required to permit the receipt, measurement, transportation, and delivery of natural gas hereunder have been authorized, installed, and are in operating condition, and (2) Company, in its reasonable discretion has determined that such service would constitute transportation of natural gas authorized under all applicable regulatory authorizations and the Commission's Regulations.

ARTICLE VI
REMUNERATION

6.1 Shipper shall pay Company monthly for the transportation services rendered hereunder the charges specified in Rate Schedule FT, Rate Schedule FT-NN, and under each effective Capacity Release Transaction, as applicable, including any penalty and other authorized charges assessed under the applicable FT or FT-NN Rate Schedule and the General Terms and Conditions. For service requested from Company under Rate Schedule FT or FT-NN, Company shall notify Shipper as soon as practicable of the date services will commence hereunder, and if said date is not the first day of the month, the Reservation Charge for the first month of service hereunder shall be adjusted to reflect only the actual number of days during said month that transportation service is available. Company may agree from time to time to discount the rates charged Shipper for services provided hereunder in accordance with the provisions of Rate Schedule FT and/or FT-NN, as applicable. Said discounted charges shall be set forth on Exhibit E hereto or the parties may agree to a Negotiated Rate for such services in accordance with the provisions of Rate Schedule FT or FT-NN. Said discounted or Negotiated Rates shall be set forth on Exhibit E or Exhibit F, respectively, hereto and shall take precedence over the charges set forth in Rate Schedules FT or FT-NN during the period in which they are in effect.

6.2 The rates and charges provided for under Rate Schedule FT shall be subject to increase or decrease pursuant to any order issued by the Commission in any proceeding initiated by Company or applicable to the services performed hereunder. Shipper agrees that Company shall, without any further agreement by Shipper, have the right to change from time to time, all or any part of its Proforma Service Agreement, as well as all or any part of Rate Schedule FT or FT-NN, as applicable, or the General Terms and Conditions thereto, including without limitation the right to change the rates and charges in effect hereunder, pursuant to Section 4(d) of the Natural Gas Act as may

be deemed necessary by Company, in its reasonable judgment, to assure just and reasonable service and rates under the Natural Gas Act. It is recognized, however, that once a Capacity Release Transaction has been awarded, Company cannot increase the Reservation Charge to be paid by Shipper under that Capacity Release Transaction, unless in its bid the Acquiring Shipper has agreed to pay a percentage of the maximum tariff rate in effect and the maximum tariff rate increases during the term of the Capacity Release Transaction. Nothing contained herein shall prejudice the rights of Shipper to contest at any time the changes made pursuant to this Section 6.2, including the right to contest the transportation rates or charges for the services provided under this Agreement, from time to time, in any subsequent rate proceedings by Company under Section 4 of the Natural Gas Act or to file a complaint under Section 5 of the Natural Gas Act with respect to such transportation rates or charges, the Rate Schedules, or the General Terms and Conditions thereto.

ARTICLE VII SPECIAL PROVISIONS

7.1 If Shipper is a seller of gas under more than one Service Agreement and requests that company allow it to aggregate nominations for certain Receipt Points for such Agreements, Company will allow such an arrangement under the terms and conditions set forth in this Article VII. To be eligible to aggregate gas, Shipper must comply with the provisions of Section 2.2 of the General Terms and Conditions and the terms and conditions of the Supply Pool Balancing Agreement executed by Shipper and Company pursuant thereto.

7.2 If Shipper is a purchaser of gas from a seller that is selling from an aggregate of Receipt Points, and Shipper wishes to nominate to receive gas from such seller's aggregate supplies of gas, Company will allow such a nomination, provided that the seller (i) has entered into a Supply Pool Balancing Agreement with Company and (ii) submits a corresponding nomination to deliver gas to Shipper from its aggregate supply pool.

ARTICLE VIII
MISCELLANEOUS

8.1 This Agreement constitutes the entire Agreement between the parties and no waiver by Company or Shipper of any default of either party under this Agreement shall operate as a waiver of any subsequent default whether of a like or different character.

8.2 The laws of the State of Alabama shall govern the validity, construction, interpretation, and effect of this Agreement.

8.3 No modification of or supplement to the terms and provisions hereof shall be or become effective except by execution of a supplementary written agreement between the parties except that (i) a Capacity Release Transaction may be issued, and (ii) in accordance with the provisions of Rate Schedule FT and/or FT-NN, as applicable, and the General Terms and Conditions thereto, Receipt Points may be added to or deleted from Exhibit A and the Maximum Daily Receipt Quantity for any Receipt Point on Exhibit A may be changed upon execution by Company and Shipper of a Revised Exhibit A to reflect said change(s), and (iii) Delivery Points may be added to or deleted from Exhibit B and the Maximum Daily Delivery Quantity for any Delivery Point may be changed upon execution by Company and Shipper of a Revised Exhibit B to reflect said change(s). It is provided, however, that any such change to Exhibit A or Exhibit B must include corresponding changes to the existing Maximum Daily Receipt Quantities or Maximum Daily Delivery Quantities, respectively, such that the sum of the changed Maximum Daily Receipt Quantities shall not exceed the Transportation Demand and the sum of the Maximum Daily Delivery Quantities equals the Transportation Demand.

8.4 This Agreement shall bind and benefit the successors and assigns of the respective parties hereto. Subject to the provisions of Section 22 of the General Terms and Conditions applicable hereto, either party may assign this Agreement to an affiliated company without the prior written consent of the other party, provided that the affiliated company is creditworthy pursuant to Section 2.1(d) of the General Terms and Conditions, but neither party may assign this Agreement to a nonaffiliated company without the prior written consent of the other party, which consent shall not be unreasonably withheld; provided, however, that either party may assign or pledge this Agreement under the provisions of any mortgage, deed or trust, indenture or similar instrument.

8.5 Exhibits A, A-1, B, B-1, and F attached to this Agreement constitute a part of this Agreement are incorporated herein.

8.6 This Agreement is subject to all present and future valid laws and orders, rules, and regulations of any regulatory body of the federal or state government having or asserting jurisdiction herein. After the execution of this Agreement for firm transportation capacity from Company, each party shall make and diligently prosecute all necessary filings with federal or other governmental bodies, or both, as may be required

for the initiation and continuation of the transportation service which is the subject of this Agreement and to construct and operate any facilities necessary therefore. Each party shall have the right to seek such governmental authorizations as it deems necessary, including the right to prosecute its requests or applications for such authorization in the manner it deems appropriate. Upon either party's request, the other party shall timely provide or cause to be provided to the requesting party such information and material not within the requesting party's control and/or possession that may be required for such filings. Each party shall promptly inform the other party of any changes in the representations made by such party herein and/or in the information provided pursuant to this paragraph. Each party shall promptly provide the party with a copy of all filings, notices, approvals, and authorizations in the course of the prosecution of its filings. In the event all such necessary regulatory approvals have not been issued or have not been issued on terms and conditions acceptable to Company or Shipper within twelve (12) months from the date of the initial application therefor, then Company or Shipper may terminate this Agreement without further liability or obligation to the other party by giving written notice thereof at any time subsequent to the end of such twelve-month period, but prior to the receipt of all such acceptable approvals. Such notice will be effective as of the date it is delivered to the U.S. Mail, for delivery by certified mail, return receipt requested.

8.7 If Shipper experiences the loss of any load by direct connection of such load to the Company's system, Shipper may reduce its Transportation Demand under this Service Agreement or any other Service Agreement for firm transportation service between Shipper and Company by giving Company 30 days prior written notice of such reduction within six (6) months of the date Company initiates direct service to the industrial customer; provided, however, that any such reduction shall be applied first to the Transportation Demand under the Service Agreement with the shortest remaining contract term.

In order to qualify for a reduction in its Transportation Demand, Shipper must certify and provide supporting data that:

- (i) The load was actually being served by Shipper with gas transported by Company prior to November 1, 1993.
- (ii) If the load lost by Shipper was served under a firm contract, the daily contract quantity shall be provided.
- (iii) If the load lost by Shipper was served under an interruptible contract, the average daily volumes during the latest twelve months of service shall be provided.

Shipper may reduce its aggregate Transportation Demand under all its Service Agreements by an amount up to the daily contract quantity in the case of the loss of a firm customer and/or up to the average daily deliveries during the latest twelve month period in the case of the loss of an interruptible customer. Such reduction shall become

effective thirty days after the date of Shipper's notice that it desires to reduce its Transportation Demand.

8.8 (If applicable) This Agreement supersedes and cancels the Service Agreement (# _____) dated _____ between the parties hereto.

IN WITNESS WHEREOF, this Agreement has been executed by the parties as of the date first written above by their respective duly authorized officers.

Attest/Witness:

SOUTHERN NATURAL GAS COMPANY

By _____
Its _____

FLORIDA POWER CORPORATION d/b/a
Progress Energy Florida, Inc.

By _____
Its _____

FIRM TRANSPORTATION SERVICE AGREEMENT

EXHIBIT "A"

SERVICE TYPE	SERVICE CODE	RECEIPT POINTS/CODE	MDRQ	SEASON ¹ (Mcf)	YEAR ²
--------------	--------------	---------------------	------	------------------------------	-------------------

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
------------	------------	------------	------------	------------	------------

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
------------	------------	------------	------------	------------	------------

By: _____
Florida Power Corporation d/b/a/ Progress
Energy Florida, Inc.

By: _____
Southern Natural Gas Company

Effective Date: _____

[REDACTED]

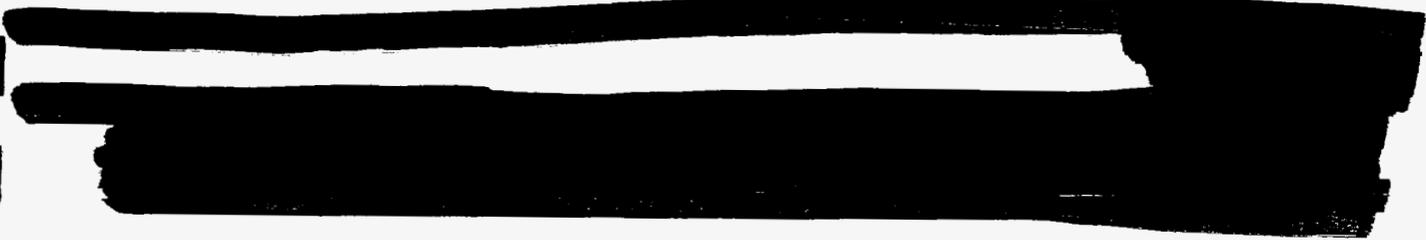
[REDACTED]

EXHIBIT A-1
RECEIPT POINTS

All active Receipt Points on Company's contiguous pipeline system, a current list of which shall be maintained by Company on its SoNet Premier bulletin board.

EXHIBIT B
DELIVERY POINTS

SERVICE TYPE	SERVICE CODE	START DATE ³	PRIMARY TERM ⁴	PT NOTICE	EVERGREEN TERM	EVRG NOTICE	DEL.POINT/CODE NAME	TD MDDQ (Mcf)
-----------------	-----------------	----------------------------	------------------------------	--------------	-------------------	----------------	------------------------	---------------------



By: _____
Florida Power Corporation d/b/a/ Progress
Energy Florida, Inc.

By: _____
Southern Natural Gas Company

Effective Date: _____



**EXHIBIT B-1
DELIVERY POINTS**

All active Delivery Points on Company's contiguous pipeline system, a current list of which shall be maintained by Company on its SoNet Premier bulletin board.

EXHIBIT "F"
NEGOTIATED RATE

The rate to be charged Shipper for the firm Transportation Demand provided by Company under this Service Agreement shall be [REDACTED] for the Primary Term of this Service Agreement, plus the [REDACTED]

The rate to be charged Shipper for fuel under this Service Agreement shall be [REDACTED]

Southern Natural Gas Company

Florida Power Corporation d/b/a Progress Energy Florida, Inc.

Effective Date: _____

End Date: _____



Florida Gas Transmission Company

1331 Lamar Street, Suite 650, Houston, TX 77010-1331

P.O. Box 4657, Houston, TX 77210-4657

713.853.0300

December 2, 2004

Progress Energy Florida, Inc.
Attention: Ms. Pamela Murphy
P. O. Box 1551
410 South Wilmington St., PEB10A
Raleigh, North Carolina 27602-1551

Re: Proposal for Transportation Services by and between Florida Power Corporation, d/b/a Progress Energy Florida, Inc., and Florida Gas Transmission Company (regarding expansion of Florida Gas Transmission Company's system to provide incremental capacity for receipts of LNG from Southern Natural Gas Company)

Dear Ms. Murphy:

Florida Power Corporation d/b/a Progress Energy Florida, Inc. ("Progress" or "Shipper") and Florida Gas Transmission Company ("FGT") hereby enter into this letter agreement ("Letter Agreement") regarding the expansion of the FGT system to provide incremental capacity to Progress as part of a project to bring liquefied natural gas ("LNG") to the State of Florida via Southern Natural Gas Company's ("SNG") proposed Cypress Pipeline project. In consideration of the premises and mutual covenants set forth herein, FGT and Shipper agree as follows:

1. Upon satisfaction of the conditions precedent set forth below, the parties will enter an FTS-2 service agreement (with terms and conditions substantially similar to those contained in the draft attached hereto as Attachment A), providing for firm natural gas transportation service to be provided by FGT for Shipper:

- a. Completion of an open season for an FGT 2007-2008 expansion of its system, and
- b. A determination by FGT, after the close of such open season, but in any case, by February 1, 2005, that the capacity desired by Shipper can be economically provided, in FGT's sole opinion, under the terms set forth in the attached draft agreements.

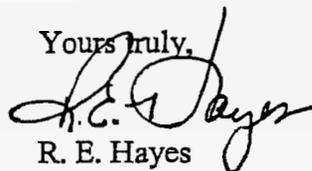
2. In the event that the conditions precedent set forth in "1" above are met, the parties shall execute the Service Agreement attached hereto as Attachment A, and shall also

execute an amendment to certain existing service agreements between the parties, in order to increase the minimum delivery pressure at the Progress-Hines Delivery Point from 500 psig to 575 psig, effective upon the in-service date of the Incremental Facilities (as defined in Section 1.3 of the FTS-2 Agreement attached as Attachment A hereto), such agreements being: (a) the FTS-1 Transportation Service Agreement dated April 1, 1998, (b) the FTS-2 Transportation Service Agreement dated April 1, 1998, (c) the FTS-2 Transportation Service Agreement dated October 7, 1998, and (d) the FTS-2 Transportation Service Agreement dated December 2, 2004.

3. This Letter Agreement shall become effective on the date of its execution by both parties and shall remain in effect until the earlier of: (a) the date of execution of FTS-2 Agreement (in form substantially similar to the attached draft agreement), (b) the date that either party notifies the other party that such condition(s) precedent will not be met, or (c) February 1, 2005. In the event that the parties do not execute the agreements attached as Attachment A by February 1, 2005, all obligations of the parties shall terminate and this Letter Agreement, as well as any agreements of the parties (oral or otherwise) with respect to such Letter Agreement, shall become null and void and of no further force and effect.

If this Letter Agreement meets with your approval, please sign below and return one of the two originals to us.

Yours truly,



R. E. Hayes
Senior Vice President &
Chief Commercial Officer

RMC

FLORIDA POWER CORPORATION
d/b/a PROGRESS ENERGY FLORIDA, INC.

By: 
Name: ROBERT F. ATWOOD
Title: VICE PRESIDENT - REG COMM. OFF.

*copy
plm*

Attachment



Florida Gas Transmission Company

1331 Lamar Street, Suite 650, Houston, TX 77010-1331
P.O. Box 4657, Houston, TX 77210-4657
713.853.0300

December 2, 2004

Progress Energy Florida, Inc.
Attn: Ms. Pamela Murphy
P. O. Box 1551
410 South Wilmington St., PEB10A
Raleigh, NC 27601

Re: Discount of Rate Under the Firm Transportation (FTS-2) Service Agreement dated December 2, 2004 ("Agreement") Between Florida Gas Transmission Company ("FGT" or "Transporter") and Florida Power Corporation d/b/a Progress Energy Florida, Inc. ("Progress" or "Shipper") (collectively the "Parties" or singularly "Party").

Dear Ms. Murphy:

Shipper has requested a competitive discount. Based upon current market conditions, Transporter has agreed to charge and Shipper has agreed to pay a discounted rate for transportation of quantities of gas under the Agreement. The terms and conditions of the discount agreed upon are expressed in this Discount Agreement ("Discount Agreement").

This Discount Agreement shall be effective from [REDACTED] provided, however, in the event that the referenced Agreement is terminated, this Discount Agreement shall immediately terminate.

The Maximum Daily Transportation Quantity (MDTQ) shall be as follows, and, unless expressly agreed otherwise, FGT's maximum rates shall apply to volumes exceeding such amounts:

[REDACTED]

The primary receipt and delivery points for the term(s) of this discount shall be as follows:

Effective Time Period	Receipt (RP)/Delivery (DP) Points
[REDACTED]	

Effective for the periods stated below, Shipper shall pay the following Discounted Reservation Charges per MMBtu ("Discounted Demand Charge"), plus all applicable surcharges; provided, however, FGT shall discount the any research and development ("R&D") surcharges (whether demand or volumetric) to \$0.00 per MMBtu for transportation of quantities under the Agreement:

Effective Time Period	Volume (MMBtu /day)	Discounted Demand Charge Dollars (\$)/MMBtu
[REDACTED]		

In addition to the above rate(s), Shipper shall also pay any applicable fuel use and unaccounted for charges, as well as any fuel surcharge.

Except for the posting of information by FGT pursuant to 18 C.F.R. Parts 161, 284, and 358 and any other applicable regulations of the Federal Energy Regulatory Commission ("FERC"), each Party agrees that it will maintain this discount, all of its contents and subsequent discount documentation and communications in strict confidence and that it will not cause or permit disclosure thereof to any third party without the express written consent of the other Party except to the extent necessary to comply with valid laws, regulations, or orders of any court or agency having jurisdiction. However, in the event either Party becomes aware of a judicial or administrative proceeding or request that has resulted or that may result in such disclosure, it shall notify the other Party immediately and will also take all actions necessary to maintain the confidentiality of all discount communications and documents. Notwithstanding anything to the contrary in this paragraph, Shipper shall have the right to provide a copy of this Discount Agreement to the Florida Public Service Commission and any other entity that is a party to the relevant docket that has executed a confidentiality agreement to retain such information confidential, without prior notice to or consent of Transporter, in connection with Shipper's attempts to obtain the Florida Public Service Commission's approval of this Discount Agreement and the Agreements.

As stated above, any R&D surcharge shall be discounted to \$0.00; provided, however that such discount shall immediately terminate in the event FGT is required to absorb any costs associated with discounting any R&D surcharge or FGT is prohibited by law from granting such discount.

Shipper shall affirmatively support the continuation of FERC's discount rate adjustment policy (providing for recognition of volumes flowing at less than maximum rates in rate proceedings). In the event that Shipper takes a contrary position in any future rate, rulemaking, or other proceeding before the FERC (or other governmental body having jurisdiction in the premises), this Discount Agreement shall immediately terminate.

In the event the maximum and minimum rates applicable to Rate Schedule FTS-2 are changed pursuant to an Order issued by the FERC, such that the transportation rates provided for herein are above FGT's maximum rates or below FGT's minimum rates, this Agreement shall terminate immediately prior to the effectiveness of such revised rates, and FGT and Shipper shall negotiate to arrive at new rates applicable to the transportation service. It is the intent of FGT and Shipper that such renegotiated discounted rates will leave both FGT and Shipper in substantially the same economic position as the transportation rates provided for herein.

THIS AGREEMENT SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT REFERENCE TO ANY CONFLICT OF LAWS DOCTRINE WHICH WOULD APPLY THE LAWS OF ANOTHER JURISDICTION. ANY SUIT BROUGHT WITH RESPECT TO OR RELATING TO THIS LETTER AGREEMENT SHALL BE BROUGHT IN THE COURTS OF HARRIS COUNTY, TEXAS OR THE SOUTHERN DISTRICT OF TEXAS, HOUSTON DIVISION.

The Parties have caused this Discount Agreement to be executed by their respective duly authorized officers as of the date first mentioned above.

FLORIDA GAS TRANSMISSION COMPANY

By: [Signature]
Name: R.F. Hayes
Title: Sr. V.P. + C.C.O.

AME

FLORIDA POWER CORPORATION,
d/b/a PROGRESS ENERGY FLORIDA, INC.

By: [Signature]
Name: ROBERT F. CAWLEY
Title: VICE PRESIDENT - REG COUNCIL

reg
council

ATTACHMENT A

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

THIS AGREEMENT entered into this day ____ of _____, 2005 by and between Florida Gas Transmission Company, a corporation of the State of Delaware (herein called "Transporter"), and Florida Power Corporation d/b/a Progress Energy Florida, Inc. (herein called "Shipper"),

WITNESSETH:

WHEREAS, Shipper is interested in obtaining firm incremental seasonal transportation service from Transporter, in conjunction with other upstream supply and capacity arrangements, in order to make available to Shipper (1) supplies needed to operate an additional combined-cycle generating unit #4 at Shipper's Hines electric power generating facility in Polk County, Florida ("Hines Unit #4 Capacity"), and (2) additional system supplies to serve its existing electric power generation facilities ("System Supply Capacity"); and

WHEREAS, Transporter is willing to provide such firm incremental seasonal transportation services to Shipper; and

WHEREAS, such services will be provided by Transporter for Shipper in accordance with the terms hereof.

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, the sufficiency of which is hereby acknowledged, Transporter and Shipper do covenant and agree as follows:

ARTICLE I
Definitions

In addition to the definitions incorporated herein through Transporter's Rate Schedule FTS-2, the following terms when used herein shall have the meanings set forth below:

- 1.1 The term "Rate Schedule FTS-2" shall mean Transporter's Rate Schedule FTS-2 as filed with the FERC and as may be changed and adjusted from time to time by Transporter in accordance with Section 4.2 hereof or in compliance with any final FERC order affecting such rate schedule.

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

- 1.2 The term "FERC" shall mean the Federal Energy Regulatory Commission or any successor regulatory agency or body, including the Congress, which has authority to regulate the rates and services of Transporter.
- 1.3 The term "Incremental Facilities" shall mean any additional facilities necessary to be constructed by Transporter and by Southern Natural Gas Company ("SNG") in connection with the seasonal incremental service to be provided under this Agreement.
- 1.4 The term "In-Service Date" shall mean the date the Incremental Facilities, as defined in 1.3, shall go into service provided that all conditions set forth in Article XI hereof have first been satisfied, which In-Service Date shall be no later than May 1, 2009.

ARTICLE II
Quantity

- 2.1 The Maximum Daily Transportation Quantity ("MDTQ") with respect to each component of the Hines Unit #4 Capacity and System Supply Capacity provided for herein is set forth on a seasonal basis, and by Division if applicable, on Exhibit B attached hereto as the same may be amended from time to time. The respective applicable MDTQs (as of May 1, 2009, the MDTQs of [REDACTED] for the Hines Unit #4 Capacity, and [REDACTED] for System Supply Capacity) shall be the largest daily quantity of gas expressed in MMBtu, that Transporter is obligated to transport and make available for delivery to Shipper under this Service Agreement on any one day.
- 2.2 Upon the In-Service Date, Shipper may tender natural gas for transportation to Transporter on any day, up to the MDTQ plus Transporter's Fuel, if applicable. Transporter agrees to receive the aggregate of the quantities of natural gas that Shipper tenders for transportation at the Receipt Points, up to the maximum daily quantity ("MDQ") specified for each receipt point as set out on Exhibit A, plus Transporter's Fuel, if applicable, and to transport and make available for delivery to Shipper at each Delivery Point specified on Exhibit B, up to the amount scheduled by Transporter less Transporter's Fuel, if applicable (as provided in Rate Schedule FTS-2), provided

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

however, that Transporter shall not be required to accept for transportation and make available for delivery more than the MDTQ on any day.

ARTICLE III
Payment and Rights in the Event of Non-Payment

- 3.1 Upon the commencement of service hereunder (following the In-Service Date), Shipper shall pay Transporter, for all service rendered hereunder, the rates established in Article IV herein.
- 3.2 Termination for Non-Payment. In the event Shipper fails to pay for the service provided under this Agreement, pursuant to the conditions set forth in Section 15 of the General Terms and Conditions of Transporter's FERC Gas Tariff, Transporter shall have the right to suspend or terminate this Agreement pursuant to the conditions set forth in said Section 15.

ARTICLE IV
Rates and Terms and Conditions of Service

- 4.1 This Agreement in all respects shall be and remain subject to the provisions of Rate Schedule FTS-2 and of the applicable provisions of the General Terms and Conditions of Transporter on file with the FERC (as the same may hereafter be legally amended or superseded), all of which are made a part hereof by this reference.
- 4.2 Transporter shall have the unilateral right to file with the appropriate regulatory authority and seek to make changes in (a) the rates and charges applicable to its Rate Schedule FTS-2, (b) Rate Schedule FTS-2 including the Form of Service Agreement and the existing Service Agreement pursuant to which this service is rendered; provided however, that the firm character of service shall not be subject to change hereunder by means of a Section 4 Filing by Transporter, and/or (c) any provisions of the General Terms and Conditions of Transporter's Tariff applicable to Rate Schedule FTS-2. Transporter agrees that Shipper may protest or contest the aforementioned filings, or seek authorization from duly constituted regulatory authorities for such adjustment of Transporter's existing

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

FERC Gas Tariff as may be found necessary in order to assure that the provisions in (a), (b) or (c) above are just and reasonable.

4.3 Notwithstanding Section 4.1 above, as of the In-Service Date and during the primary term of this Agreement, Shipper shall pay Transporter, for all services rendered hereunder, the lower of: (1) the rates established under Transporter's Rate Schedule FTS-2 (inclusive of all applicable surcharges), as filed with and approved by the FERC and as said Rate Schedule may hereafter be legally amended or superseded, or (2) the Final Rate Cap as determined below:

- (a) The Base Rate Cap shall be as follows: [REDACTED]
- (b) The Base Rate Cap assumes the levelized rate methodology through March 31, 2005, and thereafter, the traditional cost of service methodology. For purposes of this section with respect to this Agreement, a "levelized rate" shall mean a rate designed by adjusting the annual depreciation expense such that it results in a levelized cost of service.
- (c) The Base Rate Cap is stated in nominal dollars, and shall exclude all applicable surcharges and fuel.
- (d) Beginning on January 1, 2005, and annually thereafter ("Escalation Date"), the Base Rate Cap then in effect shall be escalated in accordance with the following formula; provided that in no event shall the Base Rate Cap, as it may be escalated pursuant to this subsection (d), [REDACTED]. On each Escalation Date, the Base Rate Cap to be effective for the subsequent twelve (12) month period shall be the sum of: (i) [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2



- (e) (i) For any billing month, the Final Rate Cap (stated on a per unit basis) shall be determined by adding the Base Rate Cap and an amount equal to the aggregate of the applicable surcharges (as defined in section (e)(ii) below).
- (ii) The type of surcharges contemplated under Rate Schedule FTS-2 to be included in the calculation of the Final Rate Cap are applicable surcharges, such as ACA, fuel, and Capital surcharges; provided, however, Transporter shall not collect under this Agreement any surcharge associated with GRI, Gas Supply Realignment ("GSR"), the recovery of take-or-pay costs or gas purchase reformation costs, FERC Account No.191 costs ("restructuring costs"), or any similar surcharge associated with the restructuring of Transporter's merchant service under orders in FERC Docket No. RS92-16-000 or similar proceedings, any separately stated surcharge related to the recovery of restructuring costs of any upstream provider of transportation or sales services to Transporter, or, to the extent such charges may be discountable, any industry-wide research and development surcharges such as those currently proposed in FERC Docket No. RP04-378.
- (f) If, at any time after the In-Service Date and during the primary term of this Agreement, the effective rate that Transporter is authorized by the FERC to charge Shipper, including surcharges, exceeds the Final Rate Cap, then Transporter shall discount such authorized FERC rate down to the Final Rate Cap in accordance with the order of discounting provided for in Transporter's FERC Gas Tariff.
- (g) Unless otherwise mutually agreed by the Parties, after the expiration of the primary term of this Agreement, Shipper shall pay Transporter the rates established under Transporter's Rate Schedule FTS-2, as filed with and approved by the FERC.

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

- (h) If Shipper proposes or supports a change in the rate design methodology on which the currently effective FTS-2 rates are based, as set forth in Sections III.2.c and d, and III.3.b of the Phase III Settlement, and such proposals or changes are approved by a final non-appealable order, the Final Rate Cap shall be deemed waived. Notwithstanding the foregoing, if Transporter proposes, or any other party proposes and Transporter either supports or does not oppose, a change to any of such rate design methodologies in any Section 4 or Section 5 proceeding, then Shipper may take a position on that particular rate design methodology in that proceeding, whether or not consistent with the position taken by Transporter, without waiving the Final Rate Cap, and unless otherwise agreed by Transporter and Shipper, approval of such a proposed change in the rate design methodology by a final non-appealable order, in such Section 4 or Section 5 proceeding, shall not affect the continuing applicability of the Final Rate Cap. Specifically, the rate design methodology issues referenced above in this Section (h) are as follows:
- (i) the straight fixed variable method of rate design, and of classifying and allocating costs,
 - (ii) unless otherwise agreed to by both parties hereto, the system-wide postage stamp rate for FTS-2 service to the Market Area,
 - (iii) the levelized rate methodology through March 31, 2005, and thereafter, the traditional cost-of-service methodology, and
 - (iv) the methodology of allocating the operation and maintenance (“O&M”) costs between Rate Schedules FTS-1 and FTS-2; provided, however, that without waiving its final Rate Cap under this Section (h) (iv), and with respect to the allocation of administrative and general (“A&G”) expenses only, a Shipper may challenge, on a prospective basis only, Transporter’s use of the Kansas-Nebraska methodology in the Section 4 rate case to be filed by Transporter in accordance with Article XI of the Settlement approved by the FERC in Docket No. RP04-12; and provided further, that Shipper may, without waiving its Final Rate Cap (and regardless of any position taken by

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

Transporter), argue for any allocation methodology that allocates no more O&M costs to Rate Schedule FTS-2 than would otherwise be allocated by use of:

- a. the Phase III Settlement methodology for allocating all O&M costs except for A&G expenses, and
- b. the *Kansas-Nebraska* methodology for allocating A&G expenses.

4.4 [Deleted– Not Applicable]

ARTICLE V
Term of Agreement

5.1 This Agreement shall become effective upon the date first written above and shall continue in effect for a primary term of Twenty (20) years commencing with the In-Service Date.

5.2 In the event the capacity being contracted for was acquired pursuant to Section 18.E. of Transporter's Tariff, then this Agreement shall terminate on the date set forth in Section 5.1 above. Otherwise, in accordance with the provisions of Section 20 of the General Terms and Conditions of Transporter's Tariff, Shipper has elected [Right of First Refusal or Roll-over Option] and upon the expiration of the primary term and any extension or roll-over, termination will be governed by the provisions of Section 20 of the General Terms and Conditions of Transporter's Tariff.

5.3 [deleted – not applicable]

5.4 Shipper may buy out of a Service Agreement for all or a portion of its transportation capacity ("MDTQ") thereunder, at any time, by paying Transporter the net present value of Shipper's remaining reservation charge obligations for such capacity, discounted at a reasonable rate to be mutually agreed upon by the parties at the time of such buy-out.

5.5 Notwithstanding any other provision in this Agreement, after the In-Service Date, in the event that: (1) Shipper is capable of using gas and (2) Transporter is unable to deliver

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

Shipper's designated volumes at the specified Delivery Point(s) and at the pressures provided for in this Agreement for a period of two consecutive days ("Service Cessation"), Shipper shall have the right to reduce the MDTQ by the volumes not delivered, without costs or penalty, by providing written notice to Transporter within forty-five (45) days of such occurrence; provided, however, that if a Service Cessation occurs more than five (5) times in any calendar year, Shipper shall have the right to terminate this Agreement by providing written notice to Transporter within forty-five (45) days of such occurrence; provided further, however, that if Transporter's failure to deliver is due to events of Transporter's force majeure as defined in Rate Schedule FTS-2, Shipper shall have the right to terminate or to reduce the MDTQ only in the event such force majeure continues for more than one hundred eighty-five (185) consecutive days of any three hundred sixty-five (365) day period.

ARTICLE VI

Point(s) of Receipt and Delivery and Maximum Daily Quantities

- 6.1 The Primary Point(s) of Receipt and maximum daily quantity for each Primary Point of Receipt with respect to the Hines Unit #4 Capacity and System Supply Capacity, for all gas delivered by Shipper to Transporter under this Agreement shall be at the Point(s) of Receipt on the pipeline system of Transporter or any Transporting Pipeline as set forth in Exhibit A attached hereto, as the same may be amended from time to time. In accordance with the provisions of Section 8.A. of Rate Schedule FTS-2 and Section 21.C. of the General Terms and Conditions of Transporter's Tariff, Shipper may request changes in its Primary Point(s) of Receipt. Transporter may make such changes in accordance with the terms of Rate Schedule FTS-2 and the applicable General Terms and Conditions of its Tariff.
- 6.2 The Primary Point(s) of Delivery and maximum daily quantity for each point for all gas made available for delivery by Transporter to Shipper, or for the account of Shipper, under this Agreement and with respect to the Hines Unit #4 Capacity and System Supply Capacity shall be at the Point(s) of Delivery as set forth in Exhibit B hereto, as same may be amended from time to time, and shall be in Transporter's Market Area. In accordance

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

with the provisions of Section 9.A. of Rate Schedule FTS-2 and Section 21.C. of the General Terms and Conditions of Transporter's Tariff, Shipper may request changes in its Primary Point(s) of Delivery provided that such new requested Primary Delivery Points must be located in Transporter's Market Area. Transporter may make such changes in accordance with the terms of Rate Schedule FTS-2 and the applicable General Terms and Conditions of its Tariff. Transporter is not obligated to accept changes where the new Primary Delivery point is also a delivery point under a Rate Schedule SFTS Service Agreement and the load to be served is an existing behind-the-gate customer of a Rate Schedule SFTS Shipper as defined in Section 11 of Rate Schedule SFTS.

ARTICLE VII
Notices

All notices, payments and communications with respect to this Agreement shall be in writing and sent to the addresses stated below or at any other such address as may hereafter be designated in writing:

ADMINISTRATIVE MATTERS

Transporter: Florida Gas Transmission Company
1331 Lamar Street, Suite #650
Houston, Texas 77010
Attention: Market Services
Telephone No. (713) 853-5655

Shipper: Florida Power Corporation d/b/a Progress Energy Florida, Inc.
410 South Wilmington St., PEB19
Raleigh, NC 27601
Attention: Contracts Dept.
Telephone No. 919-546-4280
Fax No. 919-546-2649

PAYMENT BY WIRE TRANSFER

Transporter: Florida Gas Transmission Company
[Transporter to provide at a later date]

Shipper: Florida Power Corporation d/b/a Progress Energy Florida, Inc.
[Shipper to provide at a later date]

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

ARTICLE VIII
Facilities

- 8.1 To the extent that construction of facilities is necessary to provide service under this Service Agreement, such construction, including payment for the facilities, shall occur in accordance with Section 21 of the General Terms and Conditions of Transporter's Tariff.
- 8.2 Transporter shall seek authorization to roll in the cost of the Incremental Facilities necessary to render service hereunder, including the mainline facilities and any modifications and upgrades required to the existing Progress-Hines delivery station facilities to provide a delivery capacity of up to [REDACTED]

ARTICLE IX
Regulatory Authorizations and Approvals

(a) Transporter's obligation to provide service is conditioned upon receipt and acceptance of any necessary regulatory authorization, in a form acceptable to Transporter in its sole discretion, to provide Firm Transportation Service to Shipper in accordance with the terms of Rate Schedule FTS-2, this Service Agreement, and the General Terms and Conditions of Transporter's Tariff.

(b) [deleted – not applicable]

ARTICLE X
Pressure

- 10.1 The quantities of gas delivered or caused to be delivered by Shipper to Transporter hereunder shall be delivered into Transporter's pipeline system at a pressure sufficient to enter Transporter's system, but in no event shall such gas be delivered at a pressure exceeding the maximum authorized operating pressure or such other pressure as Transporter permits at the Point(s) of Receipt.
- 10.2 Transporter shall have no obligation to provide compression and/or alter its system operation to effectuate deliveries at the Point(s) of Delivery hereunder.

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

- 10.3 The quantities of gas to be delivered by Transporter to Shipper hereunder shall be delivered to Shipper at a minimum pressure of 575 psig at the Progress-Hines delivery point.

ARTICLE XI
Other Provisions

- 11.1 Prior to Transporter's execution of this Agreement, Shipper must demonstrate creditworthiness satisfactory to Transporter, In the event Shipper fails to establish creditworthiness within fifteen (15) days of Transporter's notice, Transporter shall not execute this Agreement and this Agreement shall not become effective.
- 11.2 Service pursuant to this Agreement is expressly subject to the following conditions:
- (a) (i) The issuance, and acceptance by Transporter, of all necessary authorizations from the FERC pursuant to the Natural Gas Act or Natural Gas Policy Act, permitting Transporter to construct, own, and operate the Facilities and to effectuate the proposed service hereunder. All such authorizations shall be in form and substance satisfactory to Transporter, and shall be final before the respective governmental authority and no longer subject to appeal or rehearing; provided, however, that Transporter may waive the condition that such authority be final and/or no longer subject to appeal or rehearing.
 - (ii) Shipper shall have the right to terminate this Agreement in the event that it determines, in good faith, that a condition in the FERC authorization materially adversely affects its business and operations. If Shipper elects to terminate under this provision, it will notify Transporter in writing within fifteen (15) days of the issuance of such authorization.
 - (b) This agreement is subject to approval of the board of directors of Transporter and receipt and acceptance by Transporter of all other approvals required to construct the Facilities, including all necessary authorizations from federal, state, local, and/or municipal agencies or other governmental authorities. All such approvals shall be in form and substance satisfactory to Transporter, and shall be final before

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

the respective governmental authority and no longer subject to appeal or rehearing; provided, however, that Transporter may waive the condition that such authority be final and/or no longer subject to appeal or rehearing.

- (c) The receipt of executed firm transportation service agreements sufficient to economically justify construction of the Facilities, if required, in Transporter's sole opinion, and the execution of all necessary interconnect and balancing agreements with Southern Natural Gas Company ("SNG"), relating to the Cypress Pipeline project.
- (d) So long as the FTS-2 rates are designed on an incremental basis, Shipper agrees to support the rate methodology underlying the existing FTS-2 rates for the Facilities and service rendered under its FTS-2 agreements, in any proceeding before the FERC during the term of this Agreement.
- (e) Receipt by Transporter of all necessary right-of-way easements or permits in form and substance acceptable to Transporter.
- (f) Transporter obtaining financing to construct the Facilities, in a form, and under terms, satisfactory to Transporter, in Transporter's sole opinion. Shipper agrees to provide reasonable cooperation in Transporter's effort to obtain financing.
- (g) Completion of all of the following:
 - (i) The approval of this Agreement by Shipper's senior management and if necessary, Shipper's Board of Directors, by January 31, 2005;
 - (ii) The entry by the Florida Public Service Commission of an order approving this Agreement without the need for significant alteration (which shall be determined by Shipper in its sole discretion), by June 15, 2005;
 - (iii) The entry by Florida Public Service Commission of an order approving a determination of the need for the additional proposed combined-cycle Unit #4 that is planned to be installed at Shipper's Hines electric power generating facility located in Polk County, Florida, by May 1, 2005;
 - (iv) The execution by Shipper of agreements with each of (1) Southern Natural Gas Company (for firm transportation on its system for quantities related to the MDTQ's reflected in Attachment A and Attachment B hereto); and (2) BG

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

LNG Services, LLC (for the supply of natural gas to Shipper for quantities related to the MDTQ's reflected in Attachment A and Attachment B hereto), each in a form and containing terms and conditions satisfactory to Shipper in its sole discretion (collectively, the "Related Agreements"), by December 6, 2004;

- (v) The entry by the Florida Public Service Commission of an order approving each of the Related Agreements without the need for significant alteration (which shall be determined by Shipper in its sole discretion), by June 15, 2005;
- (vi) Completion and commencement of operation of (which shall be determined by Shipper in its sole discretion), the proposed expansion of SNG's natural gas pipeline system that extends from (i) a point of interconnection with the Elba Island LNG Terminal; to (ii) an interconnection with the existing (as of the effective date hereof), natural gas transmission facilities owned by Transporter in Clay County, Florida no later than March 1, 2009; and
- (vii) The granting of all governmental approvals by October 1, 2006, in form and substance satisfactory to Shipper, as may be deemed necessary by Shipper in its sole discretion related to Shipper's purchase, transportation, and utilization of the supplies of natural gas referenced hereunder and in the Related Agreements.

In the event that any of these conditions are not met by the date specified ("deadline") in this section 11.2(g), Shipper may elect to terminate this Agreement by giving written notice, within ten (10) days of the deadline, of such termination to Transporter, and this Service Agreement shall terminate upon FGT's receipt of Shipper's notice; provided, however, in no event shall such notice be given by Shipper to Transporter any later than March 10, 2009.

- (h) The final approval by the FERC, without modification or condition that is unacceptable to any Settling Party, of the rate case Stipulation and Agreement of Settlement filed on August 13, 2004 in Docket No. RP04-12.

11.3 Subject to the other provisions of this Article XI, Transporter agrees to make all reasonable efforts to obtain the necessary authorizations, financing commitments, and all other approvals necessary to effectuate service under this Agreement. Shipper agrees to exercise good faith in the performance of this Agreement by supporting Transporter's

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

efforts to obtain all necessary authorizations, financing, and other approvals necessary to effectuate service under this Agreement.

11.4 Notwithstanding any other provision herein, at any time prior to Transporter's acceptance of all authorizations necessary to construct the Facilities, Transporter retains the right to terminate this Agreement, and to withdraw any requests or applications for regulatory approvals.

11.5 [Deleted – Not Applicable]

ARTICLE XII
Miscellaneous

12.1 (a) This Agreement shall bind and benefit the successors and assigns of the respective parties hereto; provided however, that neither party shall assign this Agreement or any of its rights or obligations hereunder without first obtaining the written consent of the other party, which consent shall not be unreasonably withheld.

(b) Shipper may also assign its rights under the Final Rate Cap but only in the event that such assignment is to a third party that has a Moody's credit rating equal to or greater than that of Shipper.

12.2 No waiver by either party of any one or more defaults by the other in the performance of any provisions of this Agreement shall operate or be construed as a waiver of any future defaults of a like or different character.

12.3 This Agreement contains Exhibits A and B (each for the periods May through September 2007, May through September 2008, and commencing May 2009), which are incorporated fully herein.

12.4 THIS AGREEMENT SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT REFERENCE TO ANY CONFLICT OF LAWS DOCTRINE WHICH WOULD APPLY THE LAWS OF ANOTHER JURISIDCTION.

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

ARTICLE XIII
Superseding Prior Service Agreements

This Agreement supercedes and cancels the following Service Agreements between
Transporter and Shipper:

None.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement by their duly
authorized officers effective as of the date first written above.

TRANSPORTER:

SHIPPER:

FLORIDA GAS TRANSMISSION COMPANY

FLORIDA POWER CORPORATION d/b/a
PROGRESS ENERGY FLORIDA, INC.

By _____

By _____

Title _____

Title _____

Attest: (to be attested if not
signed by an officer of the company)

Attest: (to be attested if not
signed by an officer of the company)

By _____

By _____

Title _____

Title _____

Date _____

Date _____

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2



REDACTED

REDACTED

REDACTED

REDACTED

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

REDACTED

REDACTED

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

THIS AGREEMENT entered into this the 2nd day of December, 2004 by and between Florida Gas Transmission Company, a corporation of the State of Delaware (herein called "Transporter"), and Florida Power Corporation d/b/a Progress Energy Florida, Inc. (herein called "Shipper"),

WITNESSETH:

WHEREAS, Shipper is interested in obtaining firm seasonal transportation service from Transporter, in conjunction with other upstream supply and capacity arrangements, in order to make available to Shipper (1) supplies needed to operate an additional combined-cycle generating unit #4 at Shipper's Hines electric power generating facility in Polk County, Florida ("Hines Unit #4 Capacity"), and (2) additional system supplies to serve its existing electric power generation facilities ("System Supply Capacity"); and

WHEREAS, Transporter is willing to provide such firm seasonal transportation services to Shipper; and

WHEREAS, such services will be provided by Transporter for Shipper in accordance with the terms hereof.

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, the sufficiency of which is hereby acknowledged, Transporter and Shipper do covenant and agree as follows:

ARTICLE I
Definitions

In addition to the definitions incorporated herein through Transporter's Rate Schedule FTS-2, the following terms when used herein shall have the meanings set forth below:

- 1.1 The term "Rate Schedule FTS-2" shall mean Transporter's Rate Schedule FTS-2 as filed with the FERC and as may be changed and adjusted from time to time by Transporter in accordance with Section 4.2 hereof or in compliance with any final FERC order affecting such rate schedule.

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

- 1.2 The term "FERC" shall mean the Federal Energy Regulatory Commission or any successor regulatory agency or body, including the Congress, which has authority to regulate the rates and services of Transporter.
- 1.3 [deleted – not applicable]
- 1.4 [deleted – not applicable]
- 1.5 The term "Service Commencement Date" shall mean the date on which the conditions set forth in Article XI hereof have first been satisfied, which Service Commencement Date shall be no later than March 1, 2009.

ARTICLE II
Quantity

- 2.1 The Maximum Daily Transportation Quantity ("MDTQ") with respect to each component of the Hines Unit #4 Capacity and System Supply Capacity provided for herein is set forth on a seasonal basis, and by Division if applicable, on Exhibit B attached hereto as the same may be amended from time to time. The respective applicable MDTQs (as of May 1, 2009, the MDTQs of ██████████ for the Hines Unit #4 Capacity, and ██████████ for System Supply Capacity) shall be the largest daily quantity of gas expressed in MMBtu, that Transporter is obligated to transport and make available for delivery to Shipper under this Service Agreement on any one day.
- 2.2 Upon the Service Commencement Date, Shipper may tender natural gas for transportation to Transporter on any day, up to the MDTQ plus Transporter's Fuel, if applicable. Transporter agrees to receive the aggregate of the quantities of natural gas that Shipper tenders for transportation at the Receipt Points, up to the maximum daily quantity ("MDQ") specified for each receipt point as set out on Exhibit A, plus Transporter's Fuel, if applicable, and to transport and make available for delivery to Shipper at each Delivery Point specified on Exhibit B, up to the amount scheduled by Transporter less Transporter's Fuel, if applicable (as provided in Rate Schedule FTS-2), provided however, that Transporter shall not be required to accept for transportation and make available for delivery more than the MDTQ on any day.

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

ARTICLE III
Payment and Rights in the Event of Non-Payment

- 3.1 Upon the Service Commencement Date, Shipper shall pay Transporter, for all service rendered hereunder, the rates established in Article IV herein.
- 3.2 Termination for Non-Payment. In the event Shipper fails to pay for the service provided under this Agreement, pursuant to the conditions set forth in Section 15 of the General Terms and Conditions of Transporter's FERC Gas Tariff, Transporter shall have the right to suspend or terminate this Agreement pursuant to the conditions set forth in said Section 15.

ARTICLE IV
Rates and Terms and Conditions of Service

- 4.1 This Agreement in all respects shall be and remain subject to the provisions of Rate Schedule FTS-2 and of the applicable provisions of the General Terms and Conditions of Transporter on file with the FERC (as the same may hereafter be legally amended or superseded), all of which are made a part hereof by this reference.
- 4.2 Subject to the Discount Agreement between Transporter and Shipper, Transporter shall have the unilateral right to file with the appropriate regulatory authority and seek to make changes in (a) the rates and charges applicable to its Rate Schedule FTS-2, (b) Rate Schedule FTS-2 including the Form of Service Agreement and the existing Service Agreement pursuant to which this service is rendered; provided however, that the firm character of service shall not be subject to change hereunder by means of a Section 4 Filing by Transporter, and/or (c) any provisions of the General Terms and Conditions of Transporter's Tariff applicable to Rate Schedule FTS-2. Transporter agrees that Shipper may protest or contest the aforementioned filings, or seek authorization from duly constituted regulatory authorities for such adjustment of Transporter's existing FERC Gas Tariff as may be found necessary in order to assure that the provisions in (a), (b) or (c) above are just and reasonable.
- 4.3 Notwithstanding Section 4.1 above, as of the Service Commencement Date and during the primary term of this Agreement, Shipper shall pay Transporter, for all services rendered

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

hereunder, unless otherwise agreed by Shipper and Transporter, the lower of: (1) the rates established under Transporter's Rate Schedule FTS-2 (inclusive of all applicable surcharges), as filed with and approved by the FERC and as said Rate Schedule may hereafter be legally amended or superseded, or (2) the Final Rate Cap as determined below:

- (a) The Base Rate Cap shall be as follows: [REDACTED]
- (b) The Base Rate Cap assumes the levelized rate methodology through March 31, 2005, and thereafter, the traditional cost of service methodology. For purposes of this section with respect to this Agreement, a "levelized rate" shall mean a rate designed by adjusting the annual depreciation expense such that it results in a levelized cost of service.
- (c) The Base Rate Cap is stated in nominal dollars, and shall exclude all applicable surcharges and fuel.
- (d) Beginning on January 1, 2005, and annually thereafter ("Escalation Date"), the Base Rate Cap then in effect shall be escalated in accordance with the following formula; provided that in no event shall the Base Rate Cap, as it may be escalated pursuant to this subsection (d), exceed [REDACTED]. On each Escalation Date, the Base Rate Cap to be effective for the subsequent twelve (12) month period shall be the sum of:

[REDACTED]

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

- (e) (i) For any billing month, the Final Rate Cap (stated on a per unit basis) shall be determined by adding the Base Rate Cap and an amount equal to the aggregate of the applicable surcharges (as defined in section (e)(ii) below).
- (ii) The type of surcharges contemplated under Rate Schedule FTS-2 to be included in the calculation of the Final Rate Cap are applicable surcharges, such as ACA, fuel, and Capital surcharges; provided, however, Transporter shall not collect under this Agreement any surcharge associated with GRI, Gas Supply Realignment ("GSR"), the recovery of take-or-pay costs or gas purchase reformation costs, FERC Account No.191 costs ("restructuring costs"), or any similar surcharge associated with the restructuring of Transporter's merchant service under orders in FERC Docket No. RS92-16-000 or similar proceedings, any separately stated surcharge related to the recovery of restructuring costs of any upstream provider of transportation or sales services to Transporter, or, to the extent such charges may be discountable, any industry-wide research and development surcharges such as those currently proposed in FERC Docket No. RP04-378.
- (f) If, at any time after the Service Commencement Date and during the primary term of this Agreement, the effective rate that Transporter is authorized by the FERC to charge Shipper, including surcharges, exceeds the Final Rate Cap, then Transporter shall discount such authorized FERC rate down to the Final Rate Cap in accordance with the order of discounting provided for in Transporter's FERC Gas Tariff.
- (g) Unless otherwise mutually agreed by the Parties, after the expiration of the primary term of this Agreement, Shipper shall pay Transporter the rates established under Transporter's Rate Schedule FTS-2, as filed with and approved by the FERC.
- (h) If Shipper proposes or supports a change in the rate design methodology on which the currently effective FTS-2 rates are based, as set forth in Sections III.2.c and d, and III.3.b of the Phase III Settlement, and such proposals or changes are approved by a final non-appealable order, the Final Rate Cap shall be deemed waived. Notwithstanding the foregoing, if Transporter proposes, or any other party proposes and Transporter either supports or does not oppose, a change to any of such rate

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

design methodologies in any Section 4 or Section 5 proceeding, then Shipper may take a position on that particular rate design methodology in that proceeding, whether or not consistent with the position taken by Transporter, without waiving the Final Rate Cap, and unless otherwise agreed by Transporter and Shipper, approval of such a proposed change in the rate design methodology by a final non-appealable order, in such Section 4 or Section 5 proceeding, shall not affect the continuing applicability of the Final Rate Cap. Specifically, the rate design methodology issues referenced above in this Section (h) are as follows:

- (i) the straight fixed variable method of rate design, and of classifying and allocating costs,
- (ii) unless otherwise agreed to by both parties hereto, the system-wide postage stamp rate for FTS-2 service to the Market Area,
- (iii) the levelized rate methodology through March 31, 2005, and thereafter, the traditional cost-of-service methodology, and
- (iv) the methodology of allocating the operation and maintenance ("O&M") costs between Rate Schedules FTS-1 and FTS-2; provided, however, that without waiving its final Rate Cap under this Section (h) (iv), and with respect to the allocation of administrative and general ("A&G") expenses only, a Shipper may challenge, on a prospective basis only, Transporter's use of the Kansas-Nebraska methodology in the Section 4 rate case to be filed by Transporter in accordance with Article XI of the Settlement approved by the FERC in Docket No. RP04-12; and provided further, that Shipper may, without waiving its Final Rate Cap (and regardless of any position taken by Transporter), argue for any allocation methodology that allocates no more O&M costs to Rate Schedule FTS-2 than would otherwise be allocated by use of:
 - a. the *Phase III Settlement* methodology for allocating all O&M costs except for A&G expenses, and
 - b. the *Kansas-Nebraska* methodology for allocating A&G expenses.

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

4.4 [Deleted– Not Applicable]

ARTICLE V
Term of Agreement

- 5.1 This Agreement shall become effective upon the date first written above and shall continue in effect for a primary term of Twenty (20) years commencing with the Service Commencement Date.
- 5.2 In the event the capacity being contracted for was acquired pursuant to Section 18.E. of Transporter's Tariff, then this Agreement shall terminate on the date set forth in Section 5.1 above. Otherwise, in accordance with the provisions of Section 20 of the General Terms and Conditions of Transporter's Tariff, Shipper has elected [Right of First Refusal or Roll-over Option] and upon the expiration of the primary term and any extension or roll-over, termination will be governed by the provisions of Section 20 of the General Terms and Conditions of Transporter's Tariff.
- 5.3 [deleted – not applicable]
- 5.4 Shipper may buy out of a Service Agreement for all or a portion of its transportation capacity ("MDTQ") thereunder, at any time, by paying Transporter the net present value of Shipper's remaining reservation charge obligations for such capacity, discounted at a reasonable rate to be mutually agreed upon by the parties at the time of such buy-out.
- 5.5 Notwithstanding any other provision in this Agreement, after the Service Commencement Date, in the event that: (1) Shipper is capable of using gas; and (2) Transporter is unable to deliver Shipper's designated volumes at the specified Delivery Point(s) and at the pressures provided for in this Agreement for a period of two consecutive days ("Service Cessation"), Shipper shall have the right to reduce the MDTQ by the volumes not delivered, without costs or penalty, by providing written notice to Transporter within forty-five (45) days of such occurrence; provided, however, that if a Service Cessation occurs more than five (5) times in any calendar year, Shipper shall have the right to terminate this Agreement by providing written notice to Transporter within forty-five (45) days of such occurrence; provided further, however, that if Transporter's failure to deliver is due to events of Transporter's force majeure as defined in Rate Schedule FTS-2, Shipper shall have the right

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

to terminate or to reduce the MDTQ only in the event such force majeure continues for more than one hundred eighty-five (185) consecutive days of any three hundred sixty-five (365) day period.

ARTICLE VI
Point(s) of Receipt and Delivery and Maximum Daily Quantities

- 6.1 The Primary Point(s) of Receipt and maximum daily quantity for each Primary Point of Receipt, with respect to the Hines Unit #4 Capacity and System Supply Capacity, for all gas delivered by Shipper to Transporter under this Agreement shall be at the Point(s) of Receipt on the pipeline system of Transporter or any Transporting Pipeline as set forth in Exhibit A attached hereto, as the same may be amended from time to time. In accordance with the provisions of Section 8.A. of Rate Schedule FTS-2 and Section 21.C. of the General Terms and Conditions of Transporter's Tariff, Shipper may request changes in its Primary Point(s) of Receipt. Transporter may make such changes in accordance with the terms of Rate Schedule FTS-2 and the applicable General Terms and Conditions of its Tariff.
- 6.2 The Primary Point(s) of Delivery and maximum daily quantity for each point for all gas made available for delivery by Transporter to Shipper, or for the account of Shipper, under this Agreement with respect to the Hines Unit #4 Capacity and System Supply Capacity shall be at the Point(s) of Delivery as set forth in Exhibit B hereto, as same may be amended from time to time, and shall be in Transporter's Market Area. In accordance with the provisions of Section 9.A. of Rate Schedule FTS-2 and Section 21.C. of the General Terms and Conditions of Transporter's Tariff, Shipper may request changes in its Primary Point(s) of Delivery provided that such new requested Primary Delivery Points must be located in Transporter's Market Area. Transporter may make such changes in accordance with the terms of Rate Schedule FTS-2 and the applicable General Terms and Conditions of its Tariff. Transporter is not obligated to accept changes where the new Primary Delivery point is also a delivery point under a Rate Schedule SFTS Service Agreement and the load to be served is an existing behind-the-gate customer of a Rate Schedule SFTS Shipper as defined in Section 11 of Rate Schedule SFTS.

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

ARTICLE VII
Notices

All notices, payments and communications with respect to this Agreement shall be in writing and sent to the addresses stated below or at any other such address as may hereafter be designated in writing:

ADMINISTRATIVE MATTERS

Transporter: Florida Gas Transmission Company
1331 Lamar Street, Suite #650
Houston, Texas 77010
Attention: Market Services
Telephone No. (713) 853-5655

Shipper: Florida Power Corporation d/b/a Progress Energy Florida, Inc.
410 South Wilmington St., PEB19
Raleigh, NC 27601
Attention: Contracts Dept.
Telephone No. 919-546-4280
Fax No. 919-546-2649

PAYMENT BY WIRE TRANSFER

Transporter: Florida Gas Transmission Company
[Transporter to provide at a later date]

Shipper: Florida Power Corporation d/b/a Progress Energy Florida, Inc.
[Shipper to provide at a later date]

ARTICLE VIII
Facilities

8.1 [Deleted – Not Applicable]

8.2 [Deleted – Not Applicable]

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

ARTICLE IX
Regulatory Authorizations and Approvals

(a) Transporter's obligation to provide service is conditioned upon receipt and acceptance of any necessary regulatory authorization, in a form acceptable to Transporter in its sole discretion, to provide Firm Transportation Service to Shipper in accordance with the terms of Rate Schedule FTS-2, this Service Agreement and the General Terms and Conditions of Transporter's Tariff.

(b) [deleted – not applicable]

ARTICLE X
Pressure

10.1 The quantities of gas delivered or caused to be delivered by Shipper to Transporter hereunder shall be delivered into Transporter's pipeline system at a pressure sufficient to enter Transporter's system, but in no event shall such gas be delivered at a pressure exceeding the maximum authorized operating pressure or such other pressure as Transporter permits at the Point(s) of Receipt.

10.2 Transporter shall have no obligation to provide compression and/or alter its system operation to effectuate deliveries at the Point(s) of Delivery hereunder.

10.3 The quantities of gas to be delivered by Transporter to Shipper hereunder shall be delivered to Shipper at a minimum pressure of 500 psig at the Progress-Hines delivery point.

ARTICLE XI
Other Provisions

11.1 Prior to Transporter's execution of this Agreement, Shipper must demonstrate creditworthiness satisfactory to Transporter, In the event Shipper fails to establish creditworthiness within fifteen (15) days of Transporter's notice, Transporter shall not execute this Agreement and this Agreement shall not become effective.

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

11.2 Service pursuant to this Agreement is expressly subject to the following conditions:

- (a) (i) [Deleted – Not Applicable]
- (a) (ii) [Deleted – Not Applicable]
- (b) This agreement is subject to approval of the board of directors of Transporter.
- (c) [Deleted – Not Applicable]
- (d) [Deleted – Not Applicable]
- (e) [Deleted – Not Applicable]
- (f) [Deleted – Not Applicable]
- (g) Approval of this Agreement by Shipper's senior management and/or Board of Directors by January 31, 2005, the issuance and acceptance by Shipper by June 15, 2005, of all federal, state or local authorizations, if any, requested by Shipper to receive service hereunder, and the execution by Shipper of binding upstream gas transportation and supply arrangements by January 31, 2005, and the completion of construction, by March 1, 2009, of any facilities necessary to deliver Shipper's gas to Transporter, for delivery to Shipper hereunder. In the event that any of these conditions are not met by the dates specified ("deadline") in this section 11.2(g), Shipper may elect to terminate this Agreement by giving written notice, within ten (10) days of the deadline, of such termination to Transporter, and this Service Agreement shall terminate upon Transporter's receipt of Shipper's notice; provided, however, in no event shall such notice be given by Shipper to Transporter any later than March 10, 2009.
- (h) The approval without modification or condition that is unacceptable to any Settling Party, of the rate case Stipulation and Agreement of Settlement filed on August 13, 2004 in Docket No. RP04-12.

11.3 [Deleted – Not Applicable]

11.4 [Deleted – Not Applicable]

11.5 [Deleted – Not Applicable]

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

- 11.6 In the event that Shipper does not receive, on terms and conditions acceptable to Shipper in its sole determination, by May 1, 2005, all of the final and non-appealable authorizations, approvals and or exemptions from the Florida Public Service Commission and from any other regulatory body having jurisdiction necessary for Shipper to construct, own and operate Shipper's Hines Plant Expansion ("Shippers Regulatory Approvals"), Shipper may give written notice of termination to Transporter, and this Service Agreement shall terminate upon FGT's receipt of Shipper's notice; provided, however, in no event shall such notice be given by Shipper to Transporter any later than June 10, 2005.

ARTICLE XII
Miscellaneous

- 12.1 (a) This Agreement shall bind and benefit the successors and assigns of the respective parties hereto; provided however, that neither party shall assign this Agreement or any of its rights or obligations hereunder without first obtaining the written consent of the other party, which consent shall not be unreasonably withheld.
- (b) Shipper may also assign its rights under the Final Rate Cap but only in the event that such assignment is to a third party that has a Moody's credit rating equal to or greater than that of Shipper.
- 12.2 No waiver by either party of anyone or more defaults by the other in the performance of any provisions of this Agreement shall operate or be construed as a waiver of any future defaults of a like or different character.
- 12.3 This Agreement contains Exhibits A and B (each for the periods October 2007 through April 2008, October 2008 through April 2009, and commencing October 2009), which are incorporated fully herein.
- 12.4 THIS AGREEMENT SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT REFERENCE TO ANY CONFLICT OF LAWS DOCTRINE WHICH WOULD APPLY THE LAWS OF ANOTHER JURISIDCTION.

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

ARTICLE XIII
Superseding Prior Service Agreements

This Agreement supercedes and cancels the following Service Agreements between
Transporter and Shipper:
None.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement by their duly
authorized officers effective as of the date first written above.

TRANSPORTER

SHIPPER

FLORIDA GAS TRANSMISSION COMPANY

FLORIDA POWER CORPORATION d/b/a
PROGRESS ENERGY FLORIDA, INC.

By *A.C. [Signature]* *RM*

By *[Signature]* *See plan*

Title *Sr. V.P. + CCO*

Title *ROBERT F. CALMELL*
VICE PRESIDENT - REG. COMM. [Signature]

Attest: (to be attested if not
signed by an officer of the company)

Attest: (to be attested if not
signed by an officer of the company)

By _____

By _____

Title _____

Title _____

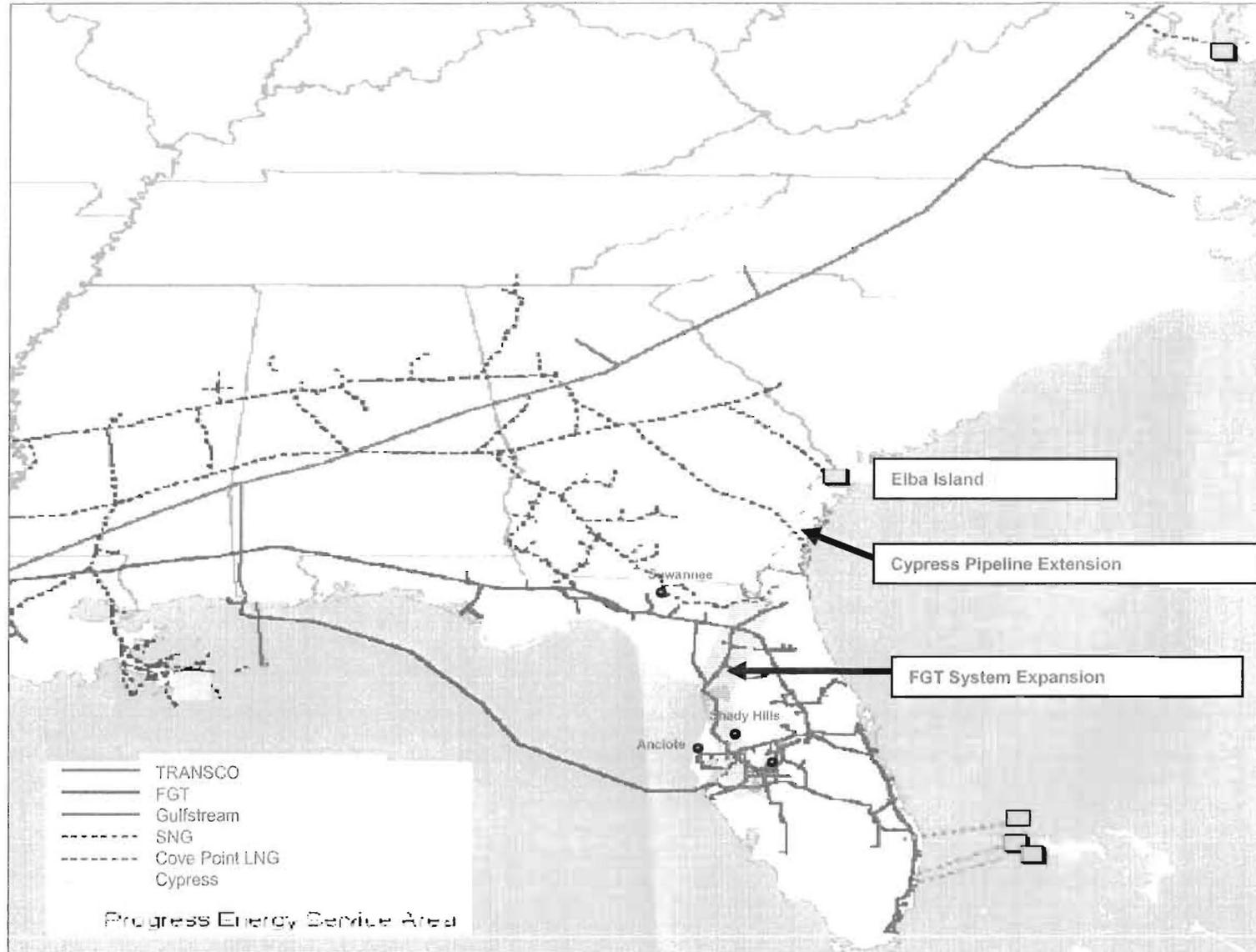
Date _____

Date _____

FIRM TRANSPORTATION SERVICE AGREEMENT
RATE SCHEDULE FTS-2

REDACTED

BG/Cypress/FGT



PRM-5

REDACTED



REDACTED