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September 15, 1997

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D. BRUCE MAY
850-425-5607

VIA HAND DELIVERY

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

971308-GU

Re: In re: Notice of Execution of Settlement Agreement and
CTS Agreement and, To The Extent Required, Petition for
Expedited Approval, Docket No. _____

Dear Ms. Bayo:

Enclosed for filing in the referenced matter are the original and 15 copies of St. Joe Natural Gas Company, Inc.'s Notice of Execution of Settlement Agreement and CTS Agreement and, To The Extent Required, Petition for Expedited Approval. Also enclosed is a copy for our records to be date stamped by you and returned to our office.

- ACK _____
- AEA _____
- APP _____
- CAF _____
- CHS _____
- DIR _____
- EAR _____
- LEG _____
- ENR _____
- OT _____
- PE _____
- RI _____
- WA _____
- OTH _____

Thank you for your consideration in this matter.

Sincerely,

HOLLAND & KNIGHT


D. Bruce May

DBM/mmb
Enclosures

cc: Mr. Stuart Shoaf
Joe McGlothlin, Esq.

TAL-116734

RECEIVED & FILED

EPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

09395 SEP 15 97

FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Expedited
Approval of Settlement Agreement
and CTS Agreement by ST. JOE
NATURAL GAS COMPANY, INC.

Docket No.: 971308

Filed: September 15, 1997

**NOTICE OF EXECUTION OF
SETTLEMENT AGREEMENT AND CTS AGREEMENT AND,
TO THE EXTENT REQUIRED, PETITION FOR EXPEDITED APPROVAL**

St. Joe Natural Gas Company, Inc. ("SJNG"), by and through undersigned counsel, hereby notifies the Florida Public Service Commission ("Commission") that on September 8, 1997, SJNG and Florida Coast Paper Company, L.L.C. ("FCPC") executed a Settlement Agreement and Contract Amendments ("Settlement Agreement") and a Service Agreement for Contract Transportation Service ("CTS Agreement"). The executed agreements do not deviate substantially from SJNG's filed regulations and rates that the Commission has already approved. However, out of an abundance of caution and to the extent additional approval is required, SJNG requests that the Commission approve on an expedited basis the Settlement Agreement and the CTS Agreement.

Introduction

1. The name and address of Petitioner is:

St. Joe Natural Gas Company, Inc.
Post Office Box 549
Port St. Joe, FL 32456

DOCUMENT NUMBER-DATE

09395 SEP 15 97

FPSC-RECORDS/REPORTING

2. All pleadings and correspondence should be directed to:

D. Bruce May
HOLLAND & KNIGHT LLP
P.O. Drawer 810
Tallahassee, FL 32302
Attorneys for St. Joe Natural Gas Company, Inc.

and

Mr. Stuart Shoaf, President
St. Joe Natural Gas Company, Inc.
Post Office Box 549
Port St. Joe, FL 32456

Background

3. SJNG is a public utility subject to Commission regulation pursuant to Chapter 366, Florida Statutes. SJNG's general offices are located at 301 Long Avenue, Port St. Joe, Florida.

4. SJNG has historically provided natural gas service to a paper mill and production facility located in Port St. Joe, Florida (the "Facility"). Prior to May, 1996, the Facility was owned and operated by St. Joe Forest Products Company, Inc. ("SJFP"), and the transportation and sale of natural gas service to the Facility was made pursuant to three agreements: (i) Service Agreement for Large Volume Service dated November 28, 1989; (ii) Sale and Purchase Agreement dated August 23, 1991; and, (iii) Large Interruptible Service Agreement dated December 13, 1993 (collectively referred to as the "SJFP Agreements"). Copies of the SJFP Agreements have been attached hereto as Composite Exhibit A.

5. On or about May 30, 1996, SJFP sold the Facility to FCPC and, in connection therewith, assigned the SJFP Agreements to FCPC. A dispute subsequently arose regarding the terms and conditions of the SJFP Agreements and the rights and duties of the parties thereunder. As a result, SJNG brought suit against the successor in interest to SJFP in the Circuit Court for Duval County, Florida, Case No. 97-03190-CA, Division CV-H. FCPC moved to intervene in that litigation.

6. On September 4, 1997, after considering the contested issues, the expense of resolving such controversies through litigation, and the benefits that will be realized by the parties and SJNG's customers from certain agreed-upon terms resolving the controversies, SJNG and FCPC executed the Settlement Agreement and Contract Amendment (attached as Exhibit B) and the CTS Agreement (attached as Exhibit C).

Approval Requested To The Extent Required

7. The operative terms of the Settlement Agreement and the CTS Agreement do not deviate substantially from the utility's approved tariff. Furthermore, the applicable rates under the two agreements do not deviate from SJNG's standard rate schedules, which this Commission has recently approved. See In re: Petition for Limited Proceeding to Restructure Rates by St. Joe Natural Gas Company, Inc., Order No. PSC-97-0526-FOF-GU, as clarified by Order No. PSC-97-1014-FOF-GU. SJNG, therefore, respectfully submits that the Settlement Agreement and the CTS Agreement do not require specific Commission approval. However, out of an abundance of caution and to the extent approval is required, SJNG respectfully submits that the execution

of the agreements is reasonable and prudent and requests approval of the agreements for the following reasons:

a. The Settlement Agreement and CTS Agreement will fully resolve all claims and controversies between SJNG and SJNG's largest customer --FCPC. This amicable resolution of the disputes is in the best interest of the utility and its customers. The settlement will avoid complex litigation that would otherwise require SJNG to expend substantial time, money and resources to the detriment of efficient utility operations.

b. The Settlement Agreement and CTS Agreement, among other things, will delineate the minimum take obligations of FCPC during the terms of the agreements, the mechanism by which FCPC may access the prepaid gas account previously established under the SJFP Agreements, and will further specify the terms and conditions under which natural gas transportation service will be provided to the Facility.

c. The rates established under the Settlement Agreement and CTS Agreement track exactly the rates which the Commission has previously approved for SJNG. Moreover, the Settlement Agreement and CTS Agreement are structured so as to substantially conform to the form service agreements which the Commission has previously approved as part of SJNG's tariff.

8. In summary, the Settlement Agreement and the CTS Agreement will fully resolve all claims and controversies between SJNG and FCPC, will conform the SJFP Agreements to the operating characteristics of the Facility's new owner, and will specify

the terms and conditions under which natural gas transportation service henceforth will be provided to SJNG's largest customer.

WHEREFORE, SJNG respectfully requests that the Commission address the petition on an expedited basis and enter an order: (i) finding that it is reasonable and prudent for SJNG to execute the Settlement Agreement and CTS Agreement; and (ii) to the extent required, approving said agreements. SJNG also requests that the Commission grant such other relief as it deems appropriate.

Respectfully submitted,



D. Bruce May
Florida Bar No. 354473
HOLLAND & KNIGHT LLP
P. O. Drawer 810
Tallahassee, FL 32302
(904)224-7000

**Attorneys for St. Joe Natural
Gas Company, Inc.**

TAL-114869

SERVICE AGREEMENT
FOR
LARGE VOLUME SERVICE

THIS AGREEMENT, entered into this 28th day of November, 1989, by and between ST. JOE NATURAL GAS COMPANY, INC., a corporation, of the State of Florida, (hereinafter called "Seller"), and ST. JOE FOREST PRODUCTS COMPANY, (hereinafter called "Buyer").

W I T N E S S E T H:

WHEREAS, Buyer wishes to purchase natural gas, on a firm basis, from Seller and Seller wishes to sell and deliver natural gas to Buyer.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer do covenant and agree as follows:

ARTICLE I
Quantities

1. The Maximum Daily Contract Quantity ("MDCQ") shall be set forth in Exhibit "A"; however, "First Revised Exhibit A" attached hereto shall supersede original Exhibit "A", attached hereto, in its entirety, upon the occurrence of all of the following three events:

a. The "in-service date of Phase II facilities" as that term is defined in the Stipulation and Agreement filed by Seller's pipeline supplier on October 16, 1989, in Docket Nos. RP89-50, et al;

and,

b. St. Joe Natural Gas Company (Seller) obtaining long term debt to finance construction of facilities necessary to deliver the Phase II incremental volumes of gas to Buyer; and,

c. St. Joe Natural Gas Company's (Seller's) completion of construction of facilities necessary to deliver the Phase II incremental volumes of gas to the Buyer.

This MDCQ shall be the largest quantity of gas that the Seller is obligated to sell and deliver to Buyer and Buyer is entitled to receive as firm natural gas for use in its facilities supplied by Buyer during any one day under this Rate Schedule Large Volume Service ("LVS") at the Point(s) of Delivery set forth in Article IV of this Agreement.

2. The Maximum Annual Contract Quantity ("MACQ") shall be set forth in Exhibit "A" or "First Revised Exhibit A" should original Exhibit "A" be superseded by the terms of this agreement; provided, however, that the MACQ shall not exceed the sum of the seasonal MDCQ's set forth in Exhibit "A" or "First Revised Exhibit A", if applicable, times the number of days in the applicable season. This Maximum Annual Contract Quantity shall be the largest quantity of gas that Seller is obligated to sell and deliver to Buyer and Buyer is entitled to receive as firm natural gas for use in its facilities supplied by Buyer during any Service Year under this Rate Schedule LVS at the Point(s) of Delivery set forth in Article IV of this Agreement.

3. Buyer shall on request furnish Seller estimates of daily, monthly and annual gas requirements as far in advance as

reasonably possible.

ARTICLE II
Rate Schedule

1. Buyer shall pay Seller, for all service rendered hereunder, the prices established under Seller's Rate Schedule LVS as filed with the Florida Public Service Commission ("FPSC") and as said Rate Schedule may hereafter be legally amended or superseded.

2. This Agreement in all respects shall be and remain subject to the applicable provisions of said Rate Schedule and of the General Terms and Conditions of Seller on file with the FPSC (as the same may hereafter be legally amended or superseded), all of which are made a part hereof by this reference.

ARTICLE III
Term of Agreement

1. This Agreement shall be effective on the Effective Date defined in Section 2 below and shall continue in effect for a primary term of five (5) years; however, upon the occurrence of all of the following three events:

a. The "in-service date of Phase II facilities" as that term is defined in the stipulation and agreement filed by Seller's pipeline supplier on October 16, 1989 in Docket Nos. RP89-50, et al; and,

b. St. Joe Natural Gas Company (Seller) obtaining long term debt to finance construction of facilities necessary to deliver the Phase II incremental volumes to Buyer; and,

c. St. Joe Natural Gas Company's (Seller's) completion of construction of the facilities necessary to deliver the Phase II incremental volumes of gas to Buyer,

this agreement shall continue in effect until the long term debt obtained by St. Joe Natural Gas Company to finance construction of the additional facilities to deliver the Phase II incremental volumes to the Buyer is discharged or paid in full.

This agreement shall continue thereafter from year to year unless and until terminated either by Seller or by Buyer upon one hundred eighty (180) days prior written notice to the other specifying a termination date at the end of such period or any yearly period thereafter. It is understood that Seller does not have and, notwithstanding Seller's good faith efforts, may not have in the future, sufficient gas supplies to supply Buyer with the quantities of gas specified in the service agreement for the term of such agreement. Buyer shall not hold Seller liable in damages or otherwise for extending the term of any agreement, or for any volumes of gas which customer is not permitted to receive as a result of curtailment of deliveries by Seller pursuant to the general terms and conditions of the curtailment plan and the gas tariff of the Seller on file with the FERC, except to the extent that such extension or curtailment is shown to be the result of Seller's negligence, bad faith, fault or willful misconduct.

2. This Agreement is expressly subject and contingent upon (i) the approval by the Federal Energy Regulatory Commission ("FERC") of the Stipulation and Agreement filed by Florida Gas

Transmission ("FGT"), on October 16, 1989 in Docket Nos. RP89-50, et al., (Stipulation and Agreement), and approval by FPSC, and (ii) receipt by Seller of all other approvals required to effectuate the proposed service hereunder, including all necessary authorizations from federal, state, local or municipal agencies, or other government authorities. It is expressly understood that all such approvals shall be in form and substance satisfactory to both Seller and Buyer in the exercise of their reasonable, good faith judgment, and shall be final and no longer subject to appeal; ~~provided, however, that Seller at its option may elect to waive the conditions that such approvals be final and/or no longer subject to appeal.~~ Upon satisfaction of the above conditions, this Agreement shall be effective and service shall commence on the Effective Date of the Stipulation and Agreement filed by FGT on October 16, 1989 in Docket Nos. RP89-50. et al.

REN
11/23/89

ARTICLE IV
Point(s) of Delivery

1. The Point(s) of Delivery for all natural gas purchased under this Agreement shall be at the Point(s) of Delivery as set forth in Exhibit "B" attached hereto.

2. The Maximum Daily Quantity at any Point of Delivery shall be the quantity (in therms) set forth in Exhibit "B" attached hereto. The aggregate of the maximum daily quantities for all Point(s) of Delivery set forth on Exhibit "B" may exceed Buyer's MDCQ, but shall not operate to increase the MDCQ or

Seller's delivery obligation as set forth in Article I of this Agreement.

ARTICLE V
Notices

All notices and communications with respect to this Agreement shall be in writing and sent by prepaid mail to the addresses stated below or at such other address as may hereafter be designated in writing.

ADMINISTRATIVE MATTERS AND PAYMENTS:

Seller: St. Joe Natural Gas Company
Post Office Box 549
Port St. Joe, Florida 32456

Attention: Stuart L. Shoaf

Buyer: St. Joe Forest Products Company
Post Office Box 190
Port St. Joe, Florida 32456

Attention: R.E. Nedley

ARTICLE VI
Miscellaneous

1. THE INTERPRETATION AND PERFORMANCE OF THIS AGREEMENT SHALL BE IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA.

2. This Agreement shall bind and benefit the successors and assigns of the respective parties hereto.

3. This Agreement cancels and supersedes, as of its effective date, the existing agreement relating to the sale of gas by Seller to Buyer as follows: All existing agreements for service under Seller's Contract Interruptible Service Rate

Schedule between Seller and Buyer, Buyer's predecessors in interest and all of its divisions, whether or not the same have been approved by the FPSC.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement by their duly authorized officials on the dates set forth below.

ST. JOE NATURAL GAS COMPANY

By *Stewart M. Mest*

Title President

ATTEST:

By *[Signature]*

Title Vice-President

Date 11/28/87

ST. JOE FOREST PRODUCTS COMPANY

By *R. E. Doddy*

Title Vice President

ATTEST:

By *Lillie M. Lund*

Title Assistant Secretary

Date 11-28-89

FIRST REVISED EXHIBIT "A"
TO
LARGE VOLUME SERVICE AGREEMENT
BETWEEN
ST. JOE NATURAL GAS COMPANY
AND
ST. JOE FOREST PRODUCTS COMPANY

Maximum Daily Contract Quantity:*

During each day of the month indicated below, the MDCQ applicable hereunder shall be as set forth below:

<u>Period</u>	<u>MDCQ (therms)</u>
October	67,722
November - March	62,000
April	46,111
May - September	46,111

Maximum Annual Contract Quantity: 19,899,695 therms

This First Revised Exhibit A shall supersede original Exhibit A attached hereto in its entirety on: 1) The "in-service date of the Phase II Facilities", as that term is defined in the Stipulation and Agreement filed by Seller's pipeline supplier on October 16, 1989, in Docket Nos. RP89-50, et al; and 2) Upon St. Joe Natural Gas Company's completion of construction of facilities necessary to deliver the Phase II incremental volumes of gas to the Buyer.

* Buyer and Seller agree to amend this First Revised Exhibit A and First Revised Exhibit B to be effective concurrently with the "in-service date of the Phase II Facilities" to reflect any conversions to firm transportation service exercised by Buyer subsequent to the date of this Exhibit.

FIRST REVISED EXHIBIT "B"
 TO
 LARGE VOLUME SERVICE AGREEMENT
 BETWEEN
 ST. JOE NATURAL GAS COMPANY
 AND
ST. JOE FOREST PRODUCTS COMPANY

Point(s) of Delivery:

<u>Description of Point(s) of Delivery</u>	<u>Maximum Daily Quantities*</u> (therms)			
	<u>Oct</u>	<u>Nov-Mar</u>	<u>Apr</u>	<u>May-Sep</u>
1. SJNG - FP #1,2**	67,722	62,000	46,111	46,111
TOTAL MDCQ	67,722	62,000	46,111	46,111

This First Revised Exhibit B shall supersede original Exhibit B attached hereto in its entirety on the "in-service date of the Phase II Facilities", as that term is defined in the Stipulation and Agreement filed by Seller's pipeline supplier.

* Seller shall not be obligated to deliver on a firm basis volumes in the aggregate under Buyer's Service Agreements under Rate Schedules LVS and CTS or any other firm rate schedule of Seller which exceed the Maximum Daily Quantity specified for each point.

** St. Joe Natural Gas - St. Joe Forest Products Meter Nos. 1 & 2

Exhibit "A"

SALE AND PURCHASE AGREEMENT

St. Joe Natural Gas Company, Inc.

And

St. Joe Forest Products Company

August 23, 1991

SALE AND PURCHASE AGREEMENT

THIS SALE AND PURCHASE AGREEMENT made this 23rd day of August 1991, by and between ST. JOE NATURAL GAS COMPANY, INC. hereinafter referred to as "Seller" and ST. JOE FOREST PRODUCTS COMPANY hereinafter referred to as "Purchaser".

W I T N E S S E T H

WHEREAS, Seller has agreed to procure a loan through NCNB National Bank of Florida ("NCNB"), hereinafter referred to as "Lender", of up to Three Million Dollars (\$3,000,000.00), which loan is or will be evidenced by certain loan documents attached hereto as Exhibit "A" and which shall be guaranteed by Purchaser.

WHEREAS, the Lender has agreed to make credit available to Seller on substantially the terms and conditions set forth in the documents attached hereto as Exhibit "A" to finance the construction of an eight inch (8") natural gas pipeline from the Florida Gas lateral in Overstreet, Florida to Seller's existing meter station located at the intersection of Kenney Mill Road and County Road 382 in Gulf County, Florida.

FOR AND IN CONSIDERATION of Ten Dollars (\$10.00) and other good and valuable consideration, receipt of which is hereby acknowledged, Purchaser hereby agrees to purchase and the Seller hereby agrees to sell or transport natural gas at the volumes hereinafter set forth:

I
Definitions

(a) **Demand Charges** - demand rate multiplied by the sum of the maximum daily contract quantity for the billing month in question.

(b) **Florida Gas Transmission Company, Inc.** - Sellers sole interstate natural gas transmission supplier engaged in the business of purchasing, transporting, and selling natural gas.

(c) **Gas Bill** - Commodity rate multiplied by the quantity of natural gas, stated in therms, delivered to Purchaser during the billing month in question, including the customer charge per Seller's applicable gas tariff rate which is presently \$1,000.00.

(d) **Large Volume Service Gas Rate** - gas rate is defined in the service agreement for large volume service dated the 28th day of November, 1989 between Seller and Purchaser which is presently established at 4.85 cents per therm.

(e) **Lender** -

(f) **Loan Documents** - certain obligation of Seller to Lender for financing the eight inch (8") pipeline, as attached hereto as Exhibit "A".

(g) **Monthly Net Proceeds** - those profits derived from sales in excess of 541,667 therms per month less expenses. Seller's outside accounting firm will audit monthly net proceeds on a monthly basis upon Purchaser's request.

(h) **Service Agreement** - agreement between Purchaser and Seller for gas service dated November 28, 1989 attached hereto as

Exhibit "B" (as the same may hereafter be legally amended or superseded).

(i) Therm - Seller's billing unit of natural gas equal to one hundred thousand British Thermal Units (BTU's).

II
Sale and Purchase

(a) Purchaser hereby covenants and promises to purchase and/or transport an average of at least 1,895,808 therms of gas per month which corresponds in part to an amount of \$91,947.00 in non-fuel charges and shall make a good faith best effort to use such average monthly amounts of natural gas during the duration of this agreement regardless of the price of alternate or substitute fuels and to make the direct payment to Lender, to pay the applicable demand and associated commodity charges as described in II(b) and (c) below.

(b) Purchaser agrees to make a direct payment to Lender on behalf of Seller in the amount of \$ 39,396.45 pursuant to the loan documents attached hereto as Exhibit "A", regardless of actual therms sold and/or delivered by Seller to Purchaser in any given month during the term of this agreement.

(c) Should Purchaser fail to use 1,895,808 therms of gas during any given month during the term of this agreement for any given reason whatsoever including but not limited to Seller's or its supplier's inability to deliver natural gas due to unexpected pipeline capacity or gas supply limitations, capacity restraints

caused by operating conditions or force majeure, curtailment, etc.,
Purchaser agrees as follows:

- (i) to pay the required monthly demand in accordance with that certain service agreement dated the 28th day of November, 1989 between Seller and Purchaser; and,
- (ii) to pay the gas bill for the actual therms used, if any, less a credit in the amount paid by Purchaser directly to Lender on behalf of Seller pursuant to II(b) above for the month, with the understanding such amount may represent a negative balance, where such negative balance shall be considered "prepaid gas" as set forth in Section III,
- (iii) in the event Seller's net gas bill rendered in II(ii) above is less than the actual costs of gas delivered to Purchaser during the month, Seller shall have the option to invoice Purchaser an amount not to exceed the actual cost of gas delivered in the given month and said amount shall be credited to Purchaser as "prepaid gas" as set forth in Section III.
- (iv) Seller will account for all monthly net proceeds as defined under I(g), which may accrue during the duration of this agreement, and any accrued monthly net proceeds will be used first, to offset any pre-paid gas which may accrue to Purchaser under II(c)(ii) or II(c)(iii).

III Prepaid Gas

If, in any month, Purchaser is required to pay for delivery of gas not taken or pay an amount up to actual gas costs for any given month this shall constitute prepaid gas as in II(c)(ii) and/or II(c)(iii) above, then and only in either or both of these events, Purchaser shall be entitled to receive credit for prepaid gas to the extent monthly net proceeds exist from prior

sales and/or deliveries of natural gas and from therm sales and/or deliveries of natural gas in excess of 1,895,808 therms in any given subsequent month. Purchaser remains obligated to pay all costs of demand charges as set forth in the Service Agreement attached hereto as Exhibit "B" and prepayments will not be credited against demand charges. Interest on such prepaid gas shall accrue annually at the prime rate as determined by the base rate on corporate loans at large U.S. Money Center Commercial banks as published in the Wall Street Journal for the last business day of the billing month. Interest shall commence to accrue on such prepaid gas from the day actual payment of said prepaid gas is made by Purchaser.

IV
**Reduction of Seller's Large Volume Service Gas
Rate By The Public Service Commission**

In the event the Public Service Commission of the State of Florida reduces the Seller's large volume service gas rate which is presently established at 4.85 cents per therm, the Purchaser shall continue to pay 4.85 cents per therm until such time as Seller's obligation to Lender, its successors or assigns, as set forth in the loan documents (and any subsequent refinancing thereof) attached hereto as Exhibit "A" is satisfied or discharged, and the difference between the large volume service gas rate in effect and the 4.85 cents per therm actually paid by Purchaser shall be deemed a loan by Purchaser to Seller to be repaid by Seller as follows:

(a) Seller shall repay any such amounts due and owing to Purchasers which accrues pursuant to Section IV above by cash or its equivalent value in natural gas.

(b) Interest on such amounts accruing pursuant to Section IV above shall accrue at the prime rate as determined by the base rate on corporate loans at large U.S. Money Center Commercial Banks as published in the Wall Street Journal for the last business day of the billing month and such amounts plus interest shall be payable on or before 5 years after the date of Seller's obligation to Lender, its successors or assigns, as set forth in the loan documents (and any subsequent refinancing thereof) attached hereto as Exhibit "A" is ultimately satisfied or discharged.

V
Event of Default

"Event of Default" wherever used herein means any one of the following events (whatever reason for such event of default and whether it shall be voluntary or involuntary or be affected by operation of law or pursuant to any judgment decree order of any court or any order, rule, or regulation of any administrative or governmental body).

(a) Failure of the Purchaser to make a good faith best effort to burn at least 1,895,808 therms of natural gas per month during the duration of Seller's obligation to Lender, its successors or assigns, as set forth in the loan documents (and any

subsequent refinancing thereof) attached hereto as Exhibit "A" regardless of the cost of alternate or substitute fuel price.

(b) Failure of Purchaser to pay (i) the direct payment to Lender on behalf of Seller in accordance with II(b); and/or (ii) the required monthly demand charges as set forth in the Service Agreement between Purchaser and Seller dated the 28th day of November, 1989 and any legal amendments or changes thereto; and/or (iii) failure of the purchaser to pay the monthly gas bill; and/or (iv) the failure of the Purchaser to pay as may be required in accordance with II(c)(iii).

(c) Failure of Seller to credit Purchaser with any pre-paid gas which may have accumulated pursuant to the terms of this agreement.

THE PARTIES to this agreement understand that TIME IS OF THE ESSENCE and such direct monthly installments due to Lender and such payments for natural gas billings shall be made by Purchaser on or before the 20th day of April, 1991 and on or before the same day of each and every consecutive month thereafter until Seller's obligation to the Lender, its successors or assigns, as set forth in the loan documents (and any subsequent refinancing thereof) attached hereto as Exhibit "A" is satisfied or discharged. Seller's obligation to reimburse prepaid gas survives the term of Seller's obligation to Lender, its successors or assigns, under the loan agreements (and any subsequent refinancing thereof) attached hereto as Exhibit "A", however, shall be refundable only in accordance with the provisions contained in Section III Prepaid

Gas.

VI
Risks and Standards of Care

Seller acknowledges that it has obtained financing and has become obligated to the Lender as represented in the loan documents attached hereto as Exhibit "A" and reliance upon Purchaser's covenants and agreements to purchase gas as set forth in the body of this agreement. Each party of this agreement has been made aware of the others financial condition and credit-worthiness. Notwithstanding other provisions to the contrary, the sole responsibility of Seller shall be to construct a eight inch (8") gas main from the existing Florida Gas Transmission Company's lateral to Port St. Joe, Florida to enable Purchaser to increase their use of natural gas. While Seller is obligated to construct said line it makes no warranties or representations as to the quantities of natural gas obtainable through Florida Gas Transmission Company other than those warranties or representations that Seller has from Florida Gas Transmission Company.

VII
Right to Assign Monthly Net Proceeds

Seller shall have the right to assign any or all of their right to monthly net proceeds (as defined under I(g) above) generated by the addition of the eight inch (8") pipeline pursuant to this document to the Lender as security for payment of the loan set forth in the loan documents attached hereto as Exhibit "A".

VIII
Indemnification

Purchaser shall protect, indemnify and save harmless Seller from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs, and expenses imposed upon or incurred by or asserted against Seller by reason an event of default or breach by Purchaser under the terms of this purchase and sale agreement; likewise, Seller shall protect, indemnify and save harmless Purchaser from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs, and expenses imposed upon or incurred by or asserted against Purchaser by reason an event of default or breach by Seller under the terms of this purchase and sale agreement.

IX
Miscellaneous

(a) Seller agrees not to seek a rate increase above the current rate which has been established as 4.85 cents per therm during the term of Seller's obligation (and any subsequent refinancing thereof) to Lender or its successors and assigns as set forth in the loan documents attached hereto as Exhibit "A".

(b) Purchaser agrees not to seek a rate decrease below the current rate which has been established as 4.85 cents per therm during the term of Seller's obligation (and any subsequent refinancing thereof) to Lender or its successors and assigns as set forth in the loan documents attached hereto as Exhibit "A".

(c) The execution of this agreement is not intended to be nor shall it be construed to be the formation of a partnership or joint venture between Purchaser and Seller.


(d) This agreement supersedes any prior negotiations or discussion or communications between Seller and Purchaser with the exception of the attached Service Agreement dated November 28, 1989, and constitutes the entire agreement between Seller and Purchaser.

(e) No amendment to this agreement shall be valid and enforceable unless it is in writing and signed by the Purchaser and Seller.

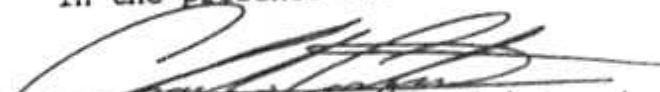
(f) Seller represents and warrants to Purchaser and Purchaser represents and warrants to Seller that it has the power and authority to execute, deliver and perform this agreement.

IN WITNESS WHEREOF the Parties hereto each have caused this agreement to be executed by its duly authorized officer all as of the day and year first set forth above.

Signed, sealed and delivered
in the presence of:


Denise B. Strickland

Signed, sealed and delivered
in the presence of:


Denise B. Strickland

ST. JOE NATURAL GAS COMPANY, INC.

By: Stuart Shoaf
Stuart L. Shoaf, President

ST. JOE FOREST PRODUCTS COMPANY

By: Robert E. Nedley
Robert E. Nedley, President

SECURITY AGREEMENT

ST. JOE NATURAL GAS COMPANY, INC., a Florida corporation with its principal place of business at 301 Long Avenue, Port St. Joe, Florida, hereinafter called "Debtor", and ST. JOE FOREST PRODUCTS COMPANY, INC., a Florida corporation with its principal place of business at First Street, Port St. Joe, Florida, hereinafter called "Secured Party", hereinafter agree as follows:

1. Creation of Security Interest: The Debtor hereby grants to the Secured Party a security interest in a twenty-four mile, more or less, eight-inch steel gas main along certain easements and rights-of-way, more particularly set forth in certain drawings numbered PH2-001, PH2-002, and PH2-003, respectively, copies of which are attached hereto and incorporated herein by reference.

2. Debtor's Obligation: Debtor shall pay to Secured Party, any and all pre-paid gas which has accrued pursuant to that certain Sale and Purchase Agreement between Debtor and Secured Party dated the 23rd day of August, 1991. Such pre-paid gas accruing pursuant to said Sale and Purchase Agreement shall accrue interest at the prime rate, as determined by base rate on corporate loans at large U. S. money center commercial banks as published in the Wall Street Journal for the last business day of the billing month. Interest shall commence to accrue on such pre-paid gas on the date purchaser makes payment to lender.

3. Payment: Monthly payments of accrued pre-paid gas shall be made by Debtor in accordance with the following terms:

- a. Should purchaser purchase or transport 1,895,808

terms or more during any given month during the duration of this agreement, Seller shall promptly apply all such monthly net proceeds to satisfy such pre-paid gas which has accrued to purchaser pursuant to the Sale and Purchase Agreement.

b. Seller shall account for all monthly net proceeds as defined in Section I(g) of the Sale and Purchase Agreement of even date, and any accrued monthly net proceeds will be first used by Seller to offset any pre-paid gas which may accrue under Section II(c)(ii) or Section II(c)(iii) of the Sale and Purchase Agreement of even date.

4. Default: In the event that the Debtor fails to pay as may be required under paragraph 3, all unpaid accrued pre-paid gas, with interest, at the secured party's option, shall become immediately due and payable, and in consideration of such right of acceleration, secured party shall be entitled to any and all remedies available under the Uniform Commercial Code enforced in the State of Florida on the date of this agreement.

DATED this 23rd day of August, 1991.

ST. JOE NATURAL GAS COMPANY, INC.

By Stuart Shoaf
Stuart L. Shoaf, Its President

ST. JOE FOREST PRODUCTS COMPANY

By Robert E. Nedley
Robert E. Nedley, Its President

Large Interruptible Service Agreement

Rate Schedule LIS

THIS AGREEMENT is entered into this 13th day of December 1993 between St. Joe Natural Gas Company, Inc. a Florida corporation ("Company"), and St. Joe Forest Products Company, a Florida corporation ("Customer").

W I T N E S S E T H :

WHEREAS, Customer is willing to contract for firm transportation service and Company is willing to provide firm transportation service to Customer in accordance with this agreement.

NOW THEREFORE, in consideration of the premises and the mutual covenants herein contained, Company and Customer agree as follows:

ARTICLE I
Quantity

- 1.1 The Maximum Daily Transportation Quantity ("MDTQ") is set forth on a seasonal basis on Exhibit B attached hereto.
- 1.2 Customer may nominate or tender natural gas for transportation to Company any day, up to the MDTQ plus Company's Fuel, if applicable. Company agrees to receive the aggregate of the quantities of natural gas that Customer tenders by nomination or for transportation at the Receipt Points, up to the maximum daily quantity specified for each Receipt Point as set out on Exhibit A, and to transport and make available for delivery to Customer at each Delivery Point, up to the maximum daily quantity at such Delivery Point specified on Exhibit B, the amount nominated or tendered by Customer less Company's Fuel, if applicable; provided, however, that Company is not required to accept for transportation

and make available for delivery more than the MDTQ on any day.

Article II
Payment

2.1 Customer shall pay Company for all service rendered hereunder the rates established under Company's Rate Schedule Large Interruptible Service (LIS) as revised from time to time.

2.2 Should Customer fail to pay all of the amount of any bill when the same becomes due, Customer shall pay Company a late charge on the unpaid balance that shall accrue per annum on each calendar day from the due date at a rate equal to two percent (2.0%) above the then-current prime rate as determined by the base rate on corporate loans posted by the nations largest banks as published in the Wall Street Journal for the last business day of the billing month, provided that for any period that such late charge exceeds any applicable maximum rate permitted by law, the late charge shall equal said applicable maximum rate.

ARTICLE III
Term of Agreement

3.1 This agreement shall become effective upon the "in-service date of the Phase III Facilities", which shall be deemed to be the first day of the month following the date on which Company receives notice from Florida Gas Transmission that the Phase III facilities are inservice, and shall continue in effect for a primary term (which shall not be less than a period of twenty years) of 20 years.

3.2 Twelve months prior to the expiration of the primary term Customer must provide Company written notice of Customer's decision of whether to exercise a ten (10) year rollover provision.

ARTICLE IV
Primary Receipt and Delivery Point(s)

The Primary Receipt and Delivery Point(s) are set forth in Exhibit A and Exhibit B, respectively. Customer may request changes only to its Primary Receipt Point(s). Company may make such changes in accordance with the terms of Rate Schedule LIS and the applicable General Terms and Conditions of its Tariff.

ARTICLE V
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 address designated in writing by the party:

ADMINISTRATIVE MATTERS & PAYMENT

Company:	St. Joe Natural Gas Company, Inc. P.O. Box 549 301 Long Avenue Port St. Joe, Florida 32456 Attention: Stuart Shoaf Telephone: (904) 229-8216 Fax: (904) 229-8392
Customer:	<u>St. Joe Forest Products Company</u> <u>P. O. Box 190</u> <u>Port St. Joe, FL 32456</u> <u>Attn: Mr. R. E. Nedley</u> <u>Telephone: (904) 227-2240</u> <u>Telecopy: (904) 227-1160</u>

ARTICLE VI
Regulatory Authorizations and Approvals

Company's obligation to provide service is conditioned upon receipt and acceptance of any necessary regulatory authorization to provide service to Customer in accordance with the terms of this Agreement, Rate Schedules LIS and General Terms and Conditions of Company's F.P.S.C. Gas Tariff.

ARTICLE VII
Miscellaneous

7.1 This Agreement shall bind and benefit the successors and assigns of the respective parties hereto; provided, however, neither party shall assign this Agreement or any of its rights or obligations hereunder without first obtaining the written consent of the other party.

7.2 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.

7.3 This Agreement contains Exhibit A and B which are incorporated fully herein.

7.4 THIS AGREEMENT SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA NOTWITHSTANDING ANOTHER JURISDICTION.

7.5 This Agreement is subject to the provisions of Rate Schedules I, IS and the applicable provisions of Company's F.P.S.C. Gas Tariff, General Terms and Conditions, as may be revised from time to time.

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

COMPANY

ST. JOE NATURAL GAS COMPANY, INC.

By Stuart M. H. H. H.

Title President

CUSTOMER

ST. JOE FOREST PRODUCTS CO.

R. E. Hedley

President

EXHIBIT A
Large Interruptible Service
Between
St Joe Natural Gas Company
and
St Joe Forest Products Company
Dated

December 13, 1993

Point(s) of Receipt	Point of Interest (POI)	Maximum Daily Quantities *			
Description of Point(s) of Receipt		Oct	Nov-Mar	(MMBTU's) Apr May-Sep	
Compressor Station # 1	25306	116	329	921	921
Compressor Station # 2	25412	138	393	1,100	1,100
Compressor Station # 3	25309	67	192	537	537
Total MDQ		321	913	2,558	2,558

* Inclusive of Fuel (FGT 3.0% + SJNG 0.5%)

EXHIBIT B
Large Interruptible Service
Between
St Joe Natural Gas Company
and
St Joe Forest Products Company
Dated

December 13, 1993

Point(s) of Delivery	Point of Interest (POI)	Maximum Daily Quantities			
Description of Point(s) of Delivery		(MMBTU's)			
		Oct	Nov-Mar	Apr	May-Sep
1. SJNG - FP# 1	0885	310	882	2,471	2,471

**SETTLEMENT AGREEMENT AND CONTRACT AMENDMENTS TO:
SERVICE AGREEMENT FOR LARGE VOLUME SERVICE, NOVEMBER 28, 1989
SALE AND PURCHASE AGREEMENT, AUGUST 23, 1991
LARGE INTERRUPTIBLE SERVICE AGREEMENT, DECEMBER 13, 1993**

This Settlement Agreement and Contract Amendments ("Agreement") is made and entered into this 8th day of September, 1997, by and between St. Joe Natural Gas Company, Inc. ("SJNG") and Florida Coast Paper Company, L.L.C. ("FCPC"), (collectively the "Parties").

BACKGROUND

Between 1989 and 1993, St. Joe Forest Products Company, Inc. ("SJFP") and SJNG entered into three agreements for the transportation and sale of natural gas to SJFP on a firm basis for a paper mill then owned by SJFP in Port St. Joe, Florida. The three agreements are identified as: (A) Service Agreement For Large Volume Service ("LVS Agreement"), November 28, 1989, (B) Sale and Purchase Agreement ("Sale and Purchase Agreement"), August 23, 1991, and (C) Large Interruptible Service Agreement ("LIS Agreement"), December 13, 1993. Collectively these three agreements will be referred to as the "Three Agreements."

Subsequently, in order to obtain the natural gas contracted for by SJFP, SJNG entered into two Firm Transportation Service Agreements ("FTS-1" and "FTS-2"), with Florida Gas Transmission Company ("FGT"). FTS-1 and FTS-2 obligated SJNG to pay FGT a monthly pipeline reservation charge for the firm capacity. Over time, SJNG billed SJFP for the FGT reservation charges and SJFP paid SJNG for such reservation charges along with other charges for gas purchased from SJNG.

In order to supply the natural gas contracted for by SJFP, SJNG procured a loan with NCNB National Bank of Florida ("NationsBank Loan") in the amount of \$2,331,841 to finance the construction of an eight (8) inch natural gas pipeline from the Florida Gas Transmission Lateral in Overstreet, Florida to SJNG's existing meter station located at the intersection of Kenney Mill Road and County Road 382 in Gulf County, Florida. In Support of the NationsBank Loan, SJFP agreed to make direct payments to the Lender on behalf of SJNG in the amount of Thirty-Nine Thousand Three Hundred Ninety-Six Dollars and 45/100 (\$39,396.45) per month, regardless of the actual therms sold and/or delivered by SJNG to SJFP during any given month.

On or about May 30, 1996, SJFP sold its paper mill in Port St. Joe, Florida to FCPC and in connection therewith, assigned to FCPC its rights and obligations under the Three Agreements.

Subsequent to the assignment, FCPC and SJNG had disputes over contract terms, obligations, and performance by FCPC under the Three Agreements. As a result, in June, 1997, SJNG brought suit against St. Joe Corporation ("SJC"), the successor in interest of SJFP in the circuit court for Duval County, Florida, Case No. 97-03190 CA. FCPC moved to intervene in the litigation.

SJNG, in July, 1997, with the consent of FGT, was released from its future obligations under the FTS-1 Agreement. Thereafter, SJNG and FCPC entered into negotiations to attempt to resolve their disputes over contract terms and past performance and to agree on amendments to the Three Agreements for future performance.

After considering the contested issues involved, the expense of resolving such controversies through litigation and the benefits to the Parties to be received under this Agreement, the Parties have determined to settle their disputes on the terms set forth below.

NOW, THEREFORE, in consideration of the promises and the mutual covenants of the parties contained herein, SJNG and FCPC agree as follows:

AGREEMENTS

1. **Amounts owed to FGT.** FCPC agrees to pay all amounts owed to FGT by SJNG for unpaid capacity reservation charges under the FTS-1 and FTS-2 Agreements, including any interest owed thereon up to and including the date of execution of this Agreement. As of the date of execution of this Agreement, the amount owed to FGT is \$503,370.97. FCPC represents that it is negotiating the terms of payment directly with FGT such that FGT looks solely to FCPC for payment and releases any and all claims against SJNG for the amount owed for unpaid capacity reservation charges under the FTS-1 and FTS-2 Agreements through August 31, 1997. If payment of the amounts owed to FGT has not been made by the date of this Agreement, FCPC agrees to make such payment no later than September 10, 1997.

2. **FTS-2 Release.** On the date of execution of this Agreement, SJNG, subject to the consent of FGT, agrees to a permanent release of FTS-2 capacity to FCPC, at the full contract rate, as follows:

<u>SEASON</u>	<u>MMBtu</u>
November - April	200
May - October	2,200
Maximum Annual Transportation Quantity	441,000

FCPC agrees that, acting with Stone Container Corporation, it has provided to FGT sufficient evidence of credit worthiness so that FGT has consented to the permanent release of the FTS-2

capacity, identified above, to FCPC. If the permanent release of the FTS-2 capacity identified above has not been finalized by the date of this Agreement, FCPC agrees to finalize the permanent release no later than September 10, 1997.

3. Amendments To Sale and Purchase Agreement. SJNG and FCPC hereby agree to amend the Sale and Purchase Agreement. Unless specifically amended herein, all terms of the Sale and Purchase Agreement remain unchanged and continue in effect. The amended provisions are as follows:

- A. FCPC agrees to make the monthly payments of \$39,396.45, provided for under paragraph II (b) of the Sale and Purchase Agreement, directly to NationsBank until the NationsBank Loan is paid in full. FCPC agrees to make the monthly payments regardless of whether any actual terms of natural gas are sold and/or delivered by SJNG to FCPC in any month during the term of the Sale and Purchase Agreement. The amount of each payment made by FCPC to NationsBank will be credited by SJNG to FCPC's prepaid gas account. After the effective date of this Agreement the monthly payments for the NationsBank Loan are the only payments by FCPC that will be credited to the prepaid gas account.
- B. FCPC and SJNG agree that the volumes of natural gas required to be sold or transported on a firm basis, as referred to in Sections II, III and V of the Sale and Purchase Agreement, are deleted and replaced by the minimum annual and monthly volumes of natural gas required to be paid for, regardless of the volumes actually transported, pursuant to the terms of the Contract Transportation Service ("CTS") Agreement, entered into contemporaneously herewith. Volumes delivered or paid for pursuant to the CTS Agreement count toward satisfying the requirements of the revised Sale and Purchase Agreement. The minimum payments are as set forth in Article III ¶2 of the CTS Agreement. A copy of the CTS Agreement is attached hereto as Exhibit 1.
- C. Notwithstanding any provision in the original Sale and Purchase Agreement to the contrary:
 - (1) there shall be no prohibition against Customer's use of fuels other than natural gas and no requirement that Customer actually buy or transport a minimum quantity of gas during a given period as long as Customer makes the minimum payments specified herein.

- (2) The rate to be applied to volumes purchased or transported hereunder shall be the then effective tariff rate, as approved by the FPSC.
- D. FCPC and SJNG agree that beginning on the effective date of this Agreement, payments made by FCPC for gas required for transport but not taken by FCPC shall not constitute prepaid gas as provided for in Section III of the Sale and Purchase Agreement. Further, beginning on the date of this Agreement, interest on FCPC's prepaid gas account, as provided for in Section III of the Sale and Purchase Agreement, shall cease to accrue.
- E. FCPC and SJNG agree that FCPC can access its prepaid gas account as provided under Section III of the Sale and Purchase Agreement only under the following terms and conditions:
- (1) Prior to the date the NationsBank Loan is paid in full FCPC may access the prepaid gas account on a monthly basis only after it has paid SJNG for in excess of 66,068.33 decatherms of natural gas within the month. Once the 66,068.33 decatherms of natural gas threshold has been met in the month, amounts above 66,068.33 decatherms bought or transported will be credited against the prepaid gas account based on the current applicable tariff rate and adjusted to take into account the then current SJNG revenue expansion factor. Presently the revenue expansion factor is set at 1.6508. As an example, by application of the current revenue expansion factor, 65% of the amount of natural gas in excess of 66,068.33 decatherms would be paid from the prepaid gas account and 35% would be paid in cash by FCPC, based on the applicable tariff rate in effect.
- (2) After the NationsBank Loan is paid in full, FCPC can access the prepaid gas account after it has paid SJNG for in excess of 36,750 decatherms within the current month. One half of the amounts above 36,750 decatherms will be paid for from the prepaid gas account and the other one half will be paid in cash by FCPC, based on the applicable tariff rate then in effect with no adjustment based on the revenue expansion factor.
- F. FCPC and SJNG agree that the Sale and Purchase Agreement shall continue in effect until such date as both the NationsBank Loan has been paid in full and the balance in the prepaid gas account has been reduced to zero. On the date when both events shall have occurred, the Sale and

Purchase Agreement shall automatically terminate and neither FCPC nor SJNG shall have any further obligations to the other under that agreement.

- G. FCPC and SJNG agree that the Sale and Purchase Agreement is hereby amended by deleting the reference to 1,895,808 therms in Section V, paragraph (a) and substituting therefor the minimum therms required to be paid for regardless of the amount actually transported, under the CTS Agreement. Accordingly, the minimum therms required to be paid for under the CTS Agreement shall be utilized to determine an event of default under Section V, paragraph (a) in lieu of the "best efforts" obligation to actually burn certain quantities that was contained in the original Sale and Purchase Agreement.

4. Amendment to Security Agreement. FCPC and SJNG agree to amend the Security Agreement attached hereto as Exhibit 6 by deleting the references to "1,895,808 therms" and "monthly net proceeds" in Paragraph 3 and substituting therefor the minimum therms required to be paid for under this Agreement in order to access the prepaid gas account. Accordingly, the minimum therms required to be paid for under this Agreement shall be utilized to determine an event of default under Paragraph 4 of the Security Agreement. The Security Agreement is further amended to provide that the prepaid gas account will not accrue interest after the execution of this Agreement. On the date when the NationsBank Loan has been paid in full and the balance in the prepaid gas account has been reduced to zero, the Security Agreement shall automatically terminate and neither FCPC nor SJNG shall have any further obligations to the other under the Security Agreement.

5. Amendment to 1989 LVS Agreement. FCPC and SJNG agree to amend both the maximum daily contract quantity and the maximum daily quantity specified for each receipt point provided for in the LVS Agreement by deleting Exhibits A and B and the First Revised Exhibits A and B to that agreement and substituting therefor Second Revised Exhibits A and B to the LVS Agreement. A copy of the Second Revised Exhibits A and B to the LVS Agreement are attached hereto as Exhibits 2 and 3.

6. Amendment to 1993 Large Interruptible Service Agreement. FCPC and SJNG agree to amend both the maximum daily contract quantity and the maximum daily quantity specified for each receipt point in the LIS Agreement by deleting Exhibits A and B to that agreement and substituting therefor First Revised Exhibits A and B to the LIS Agreement. Copies of the First Revised Exhibits A and B to the LIS Agreement are attached hereto as Exhibits 4 and 5.

7. Termination of LVS and LIS Agreements. Upon the date of execution of this Agreement and the CTS Agreement, the 1989 LVS Agreement and the 1993 LIS Agreement

shall terminate. Thereafter, the parties' gas supply relationship shall be governed by this Agreement, the Purchase and Sale Agreement, as amended, and the CTS Agreement.

8. Assignment of Causes of Action. SJNG hereby assigns to FCPC any cause of action it has against the successor in interest of SJFP arising out of or related to the arrangements between SJNG and SJFP for natural gas service, including the causes of action brought in Case No. 97-03190 CA, pending in the circuit court for Duval County, Florida, titled *St. Joe Natural Gas Company, Inc. v. St. Joe Corporation*.

9. Payment. Within ten days of the date of this Agreement, FCPC will pay to SJNG \$7,500.

10. Regulatory Approval. FCPC and SJNG agree that within five (5) working days of the execution of this Agreement, SJNG will submit to the Florida Public Service Commission ("FPSC"), a petition requesting that the FPSC address and approve to the extent necessary and appropriate, the Agreement, determine that SJNG's execution of the Agreement is reasonable and prudent and approve the CTS Agreement (the "Settlement Petition"). FCPC shall use its best efforts to cooperate and support SJNG in its request that the FPSC approve the Settlement Petition. SJNG will be bound, and continue to abide by all terms and conditions of the Agreement and the CTS Agreement, irrespective of whether the FPSC approves said Agreements.

11. Assignment. FCPC and SJNG agree that neither Party may assign its interest under this Agreement, the LVS Agreement, Sale and Purchase Agreement, the LIS Agreement, or the CTS Agreement, except with the prior written consent of the other Party, which consent shall not be unreasonably withheld. Without limiting or restricting the generality of the foregoing, it shall not be unreasonable for a party to deny its consent where, in its opinion, acting reasonably, the proposed assignee, purchaser or transferee lacks the capacity or resources necessary to ensure the proper conduct and completion of its obligations under these agreements over the remaining portion of the respective terms thereof. No assignment shall operate to release the assigning Party from its obligations hereunder unless such Party is expressly released from its obligations by the other Party.

12. Mutual Release. Upon execution of this Agreement and the CTS Agreement, and receipt by SJNG of written confirmation from FGT that FCPC has satisfied in full all of FCPC's duties and obligations set forth in Paragraph 1 and 2 above, FCPC agrees to release, satisfy and forever discharge SJNG and its officers, directors, agents, representatives, employees and assigns, of and from all claims, causes of action or suits, damage, losses and expenses of any nature whatsoever, known or unknown, which existed prior to the date of this Agreement and which arises out of, or in any way relates to, the Three Agreements as originally agreed between SJNG and SJFP.

Upon execution of this Agreement and the CTS Agreement, and receipt by SJNG of written confirmation from FGT that FCPC has satisfied in full all of FCPC's duties and obligations set forth in Paragraph 1 and 2 above, SJNG agrees to release, satisfy and forever discharge FCPC and its officers, directors, agents, representatives, employees, assigns and joint venturers of and from all claims, causes of action or suits, damage, losses and expenses of any nature whatsoever, known or unknown, which existed prior to the date of this Agreement and which arises out of, or in any way relates to, the Three Agreements as originally agreed between SJNG and SJFP.

Upon execution of this Agreement and the CTS Agreement, and receipt by SJNG of written confirmation from FGT that FCPC has satisfied in full all of FCPC's duties and obligations set forth in Paragraph 1 and 2 above, SJNG shall promptly dismiss its complaint now pending in Case No. 97-03190 CA, in Circuit Court for Duval County, Florida.

SJNG and FCPC specifically agree and acknowledge that nothing in the provisions of this Mutual Release or the other provisions of this Agreement, shall be construed as a release by SJNG or FCPC of any claim either of them may have against St. Joe Corporation as successor in interest to SJFP.

13. Documentation. FCPC and SJNG will execute additional agreements or contract amendments if such documents are required to implement the terms of this Agreement.

14. Authority To Execute. FCPC and SJNG warrant and represent to each other by and through their respective signatories that each has the full power and authority to enter into this Agreement and to perform in accordance with its provisions, and that the representatives executing this Agreement are duly authorized for each party to execute and deliver this Agreement.

15. Governing Law and Venue Selection. This Agreement shall be governed by and construed in accordance with the substantive laws of the State of Florida without giving effect to any choice of law rules that may require the application of laws of another jurisdiction. The venue and jurisdiction of all actions brought on this Agreement shall be restricted to the United States District Court for the Northern District of Florida, Tallahassee Division or the Leon County Court or the state circuit court in Leon County, Florida.

16. Entire Agreement. This Agreement, together with the Exhibits appended hereto, contains the entire agreement and understanding between the Parties, their agents, and their employees as to the subject matter of this Agreement and supersedes in its entirety any and all previous communications between the Parties as to the subject matter hereof.

17. Amendments and Termination. This Agreement shall be modified or terminated only by an instrument in writing executed by the Parties.

18. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original.

19. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns.

20. Section Headings for Convenience. Section headings appearing in this Agreement are inserted for convenience only and shall not be construed as interpretations of text.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed, the day and year first above written, each through a duly authorized official.

St. Joe Natural Gas Company, Inc.

Florida Coast Paper Company, L.L.C.

By: Stuart Shoaf
Stuart Shoaf, President

By: [Signature]

Title: President

Title: GENERAL MANAGER

Dated: 9-8-97

Dated: 9/8/97

[Signature]
Attested By

Denna C. Maxwell
Attested By

**SERVICE AGREEMENT
FOR
CONTRACT TRANSPORTATION SERVICE**

THIS AGREEMENT, entered into this 8th day of September, 1997, by and between **ST. JOE NATURAL GAS COMPANY, INC.**, a Florida corporation (hereinafter called "Company"), and **FLORIDA COAST PAPER COMPANY, LLC**, (hereinafter called "Customer").

WITNESSETH:

WHEREAS, as a result of and pursuant to a Settlement Agreement that has been entered into contemporaneously herewith ("Exhibit A") Customer is interested in obtaining transportation service from Company and Company is willing to provide contract transportation service to Customer pursuant to the terms of this Agreement; and

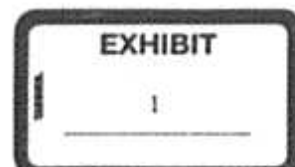
WHEREAS, Customer has completed and submitted to Company a Request For Transportation Service in accordance with the rules and regulations contained in Company's gas tariff.

WHEREAS, Customer has arranged for the interstate transportation of its supplies of Gas to the Company's Receipt Point(s);

WHEREAS, Customer desires that, upon delivery of Customer's Gas for Customer's account at the Company's Receipt Point(s), Company shall cause such Gas to be redelivered to Customer at the Customer's Delivery Point(s) named on Exhibit "C" attached hereto;

WHEREAS, Company is willing to provide the contract transportation service described above pursuant to Company's tariff on file with the Florida Public Service Commission ("FPSC") and the terms and conditions of this Agreement.

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



ARTICLE I Definitions

Unless otherwise defined herein, the terms used in this Agreement shall have the meaning ascribed to them in the Settlement Agreement and the Company's tariff.

ARTICLE II Quantities

1. Maximum Daily Transportation Quantity ("MDTQ"). The MDTQ is set forth on a seasonal basis on Exhibit "C" attached hereto. The applicable MDTQ shall be the largest daily quantity of gas expressed in MMBtu, that Company is obligated to transport and make available for delivery to Customer under this Service Agreement on any one day.
2. Nomination. Customer may nominate or tender gas for transportation to Company any day, up to the MDTQ plus Company's Fuel, if applicable. Company agrees to receive the aggregate of the quantities of Gas that Customer tenders by nomination or for transportation at the Receipts Point(s), up to the maximum daily quantity specified for the Receipt Point(s) as set out on Exhibit "B", and make available for delivery to Customer at Customer's delivery point(s), up to the maximum daily quantity at such Delivery Point(s) specified on Exhibit "C", the amount nominated or tendered by Customer less Company's Fuel, if applicable; provided, however, that Company is not required to accept for transportation and make available for delivery more than the MDTQ on any one day.
3. Capacity. Customer shall not hold Company liable in damages or otherwise for pipeline capacity which Customer is not permitted to receive as a result of curtailment of pipeline capacity by Company pursuant to the general terms and conditions of the curtailment plan in the Company's tariff on file with the FPSC, except to the extent that such curtailment is shown to be the result of Company's negligence, bad faith, fault or willful misconduct.

ARTICLE III Rate and Payment

1. Rate. Customer shall pay for all gas service rendered hereunder, the price(s) established under Rate Schedule CTS - Contract Transportation Service contained in Company's gas tariff, as filed with the FPSC and as the same may be legally amended or superseded from time to time. The

parties agree that as of the date this Agreement was executed a customer charge of \$1,000.00 per month and a non-fuel charge of .04590 per therm is currently applicable under Rate Schedule CTS.

2. Minimum Payments.

A. Payments Until the NationsBank Loan is Paid.

(i) Minimum Monthly Payments.

Until the NationsBank Loan is paid in full, Customer shall, on a monthly basis, pay Company for a minimum of 36,750 decatherms per month at the applicable tariff rate regardless of the gas actually transported.

(ii) Minimum Annual Payments.

Until the NationsBank Loan is paid in full, Customer shall pay to Company for a minimum of 792,820 decatherms over a contract year at the applicable tariff rate regardless of the gas actually transported. In the event that the NationsBank Loan is paid in full during a contract year, the minimum annual payment shall be established as the sum of the following: 792,820 decatherms multiplied by a fraction, the numerator of which is the total number of months in the contract year during which the NationsBank Loan was outstanding, and the denominator of which is twelve (12), multiplied by the applicable tariff rate; plus, 441,000 decatherms multiplied by a fraction, the numerator of which is the total number of months remaining in the contract year after the NationsBank Loan is paid in full, and the denominator of which is twelve (12), multiplied by the applicable tariff rate. For example, in the event that the NationsBank Loan is paid in full during the month of January, 1999, the minimum annual payment for that contract year would be established as follows: $(792,820 \text{ decatherms} \times 5/12 \times \text{applicable tariff rate}) + (441,000 \text{ decatherms} \times 7/12 \times \text{applicable tariff rate})$.

B. Payments After NationsBank Loan is Paid.

(i) Minimum Payments After NationsBank Loan is Paid in Full.

Except as provided in Article III ¶2.A.(ii) above, after the NationsBank Loan is paid in full, Customer shall pay Company for

a minimum of 441,000 decatherms over a contract year at the applicable tariff rate regardless of the gas actually transported and, except for the customer charge which is now established at \$1,000.00 per month, no monthly minimum shall apply.

3. Customer shall pay Company for all services rendered hereunder the rates established under Company's CTS Rate Schedule, as amended from time to time. Should Customer fail to pay all of the amount of any bill when the same becomes due, Customer's gas service shall be subject to interruption in accordance with the Company's tariff.
4. For purposes of this Agreement, "contract year" shall run from September 1 of the applicable year through and including August 31 of the following year.

ARTICLE IV Term of Agreement

1. Effective Date. This Agreement shall become effective on the date first set forth above and shall continue in effect until the NationsBank Loan is paid in full and the balance of Customer's prepaid gas account is reduced to zero pursuant to the Settlement Agreement. Thereafter, this Agreement shall continue from year to year unless and until terminated by Company or Customer upon one-hundred eighty (180) days prior written notice to the other specifying a termination date at the end of such period or any yearly period thereafter.

ARTICLE V Points of Receipt and Delivery

1. The Primary Receipt Point(s) and the Maximum Daily Quantity(s), for all gas delivered by Customer into Company's pipeline system under this agreement shall be at the Point(s) of Receipt on Company's pipeline system as set forth in Exhibit "B" attached hereto.
2. The Primary Delivery Point(s) and the Maximum Daily Quantity(s), for all gas made available for delivery by Company to Customer, under this agreement shall be at the Point(s) of Delivery as set forth in Exhibit "C" attached hereto.
 - A. The Point(s) of Delivery for all gas delivered under this Agreement shall be at the outlet side of the meter to be installed and

maintained by Company, at or adjacent to, Customer's plant site, to be determined by mutual agreement between Company and Customer.

- B. Company shall have the privilege of entering upon the property and plant site of the Customer for the purpose of reading of the meter and providing proper maintenance of the metering equipment.

ARTICLE VI
Notices

1. 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 address designated by writing by the party:

ADMINISTRATIVE MATTERS & PAYMENT

Company: St. Joe Natural Gas Company, Inc.
301 Long Avenue
Post Office Box 549
Port St. Joe, FL 32456-0549
Attention: Stuart Shoaf
Telephone: (904) 229-8216
Fax: (904) 229-8392

Customer: _____

Attention: _____

Telephone: _____

Fax: _____

ARTICLE VII
Regulatory Authorization and Approvals

1. Company's obligation to provide service shall be in accordance with the terms and conditions of this Agreement, Rate Schedule CTS and General Terms and Conditions of Company's gas tariff filed with the FPSC.

ARTICLE VIII
Miscellaneous

1. Tariff Changes. Company may seek changes in its Tariff upon filing with, and receiving approval from, the FPSC.
2. Assignment. Customer and Company agree that neither Party may assign its interest under the Settlement Agreement, the Large Volume Service Agreement, the Sale and Purchase Agreement, the LIS Agreement, or the CTS Agreement except with the prior written consent of the other Parties, which consent shall not be unreasonably withheld. Without limiting or restricting the generality of the foregoing, it shall not be unreasonable for a party to deny its consent where, in its opinion, acting reasonably, the proposed assignee, purchaser or transferee lacks the capacity or resources necessary to ensure the proper conduct and completion of its obligations under these agreements over the remaining portion of the respective terms thereof. No assignment shall operate to release the assigning Party from its obligations hereunder unless such Party is expressly released from its obligations by the other Parties.
3. No Waiver. No waiver by either party of any one or more defaults by the other in the performance of any provision of this Agreement shall operate or be construed as a waiver of any future default or defaults of the like or a different character.
4. Governing Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Florida notwithstanding another jurisdiction.
5. Headings. All article headings, section headings and subheadings are inserted for convenience only and shall not affect any construction or interpretation of this Agreement.
6. Severability. If any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable, or void, this

Agreement shall continue in full force and effect without said provision; provided, however, that if such severability materially changes the economic benefits of this Agreement to either party, the parties shall negotiate an equitable adjustment in the provisions of this Agreement in good faith.

7. Amendments. Neither this Agreement, nor any of the terms hereof, may be terminated, amended, supplemented, waived or modified except by an instrument in writing signed by both Company and Customer. A change of the place to which notices pursuant to this Agreement must be sent shall not be deemed nor require any amendment of this Agreement provided that such change is communicated in accordance with the notice provisions of this Agreement.
8. Counterparts. This Agreement may be executed in two (2) or more counterparts, all of which taken together shall constitute one and the same instrument and each of which shall be deemed an original instrument as against the party who has signed it.
9. Legal Fees. In the event of litigation between the parties hereto arising out of or in connection with this Agreement, then the reasonable attorneys' fees and costs of the party prevailing in such litigation shall be paid by the other party.
10. Representations and Warranties of Customer. Customer represents and warrants to and for the benefit of Company that, as of the date of this Agreement: Customer has full power, authority and legal right to carry on its business as presently conducted and to enter into and perform its obligations under this Agreement and all other agreements entered into or undertaken in connection with the transactions contemplated hereby; and the execution, delivery and performance by Customer of this Agreement have been duly authorized and all required action for such authorization has been taken.
11. Retainage. As an allowance for shrinkage in providing transportation service hereunder, Company shall be entitled to retain, at no cost to Company, a percentage of the quantity of Gas delivered by, or tendered to Company for the account of, Customer at each Company Receipt Point(s), in an amount equal to five tenths of one percent (0.5%) by volume. Notwithstanding the foregoing, then the Retainage hereunder shall, upon notice by Company to Customer, be increased or decreased prospectively as approved by the FPSC.

IN WITNESS WHEREOF, the parties have executed this Agreement by their duly authorized officials on the dates set forth below:

**ST. JOE NATURAL GAS
COMPANY, INC.**

By: *Matt Mott*

Title: *President*

Authorized Representative of
St. Joe Natural Gas Company,
Inc.

Attest: *Gene Doay*

**FLORIDA COAST PAPER
COMPANY, LLC**

By: *Terrell [Signature]*

Title: *GENERAL MANAGER*

Authorized Representative of
Florida Coast Paper Company,
LLC

Attest: *Donna C. Maxwell*

EXHIBIT "B"
TO
CONTRACT TRANSPORTATION SERVICE AGREEMENT
BETWEEN
ST. JOE NATURAL GAS COMPANY, INC.
AND
FLORIDA COAST PAPER COMPANY, LLC

MAXIMUM DAILY TRANSPORTATION QUANTITY:

<u>SEASON</u>	<u>POI</u>	<u>DESCRIPTION OF RECEIPT POINT(S)</u>	<u>MDTQ (MMBtu)*</u>
November-April	56657	St. Joe Overstreet	(MDQ) 10,000
May-October	56657	St. Joe Overstreet	(MDQ) 10,000

Customer to provide Retainage pursuant to Service Agreement and provisions of Company's FPSC Gas Tariff, Rules and Regulation.

- Exclusive of Company's Retainage

EXHIBIT "C"
TO
CONTRACT TRANSPORTATION SERVICE AGREEMENT
BETWEEN
ST. JOE NATURAL GAS COMPANY, INC.
AND
FLORIDA COAST PAPER COMPANY, LLC

POINT(S) OF DELIVERY:

<u>SEASON</u>	<u>POI</u>	<u>DESCRIPTION OF DELIVERY POINT(S)</u>	<u>MAXIMUM DAILY QUANTITIES (MMBtu)</u>
November-April	0885	SJNG-Paper Mill	10,000
May-October	0885	SJNG-Paper Mill	10,000

Second Revised Exhibit A
to
Large Volume Service Agreement
between
St. Joe Natural Gas Company
and
St. Joe Forest Products Company
Dated
November 28, 1989

Maximum Daily Contract Quantity:

During each day of the month indicated below, the MDCQ applicable hereunder shall be set forth below:

<u>Season</u>	<u>MDCQ (therms)</u>
October	0
November - March	0
April	0
May - September	0
Maximum Annual Contract Quantity:	0

This Second Revised Exhibit A shall supersede First Revised Exhibit A hereto in its entirety upon the August 1, 1997 permanent release of the MDCQ listed on First Revised Exhibit A.

* Exclusive of Retainage for Transporter's Fuel

FLORIDA COAST PAPER COMPANY

By: *Jerald Q. Allen*

Title: GENERAL MANAGER

Attest: *Kenna C. Maxwell*

(To be attested if not signed by an officer of the company.)

ST. JOE NATURAL GAS COMPANY

By: *Michael M. Wolf*

Title: President

Date of this Second Revised Exhibit A superseding First Revised Exhibit A dated November 28, 1989: August 1, 1997

EXHIBIT 2

Second Revised Exhibit B
to
Large Volume Service Agreement
between
St. Joe Natural Gas Company
and
St. Joe Forest Products Company
Dated
November 28, 1989

Point(s) of Delivery:

Description of Point(s) of Delivery	<u>Maximum Daily Quantities *</u> (therms)			
	<u>Oct.</u>	<u>Nov-Mar</u>	<u>Apr</u>	<u>May-Sep</u>
1. SJNG - Paper Mill #0885	0	0	0	0
Total MDCQ	0	0	0	0

* Seller shall not be obligated to deliver on a firm basis volumes in the aggregate under Buyer's Service Agreements under Rate Schedule CTS or any other firm rate schedule of Seller which exceeds the Maximum Daily Quantity specified for each point.

FLORIDA COAST PAPER COMPANY

By: *Joseph O'Callahan*

Title: GENERAL MANAGER

Attest: *Konasa C. Maxwell*
(To be attested if not signed by an officer of the company.)

ST. JOE NATURAL GAS COMPANY

By: *Robert M. ...*

Title: President

Date of this Second Revised Exhibit B superseding First Revised Exhibit B dated November 28, 1989: August 1, 1997

First Revised Exhibit A
to
Large Interruptible Service
between
St. Joe Natural Gas Company
and
St. Joe Forest Products Company
Dated
December 13, 1993

<u>Point(s) of Receipt:</u>	<u>Maximum Daily Quantities (MMBtu's)*</u>		
<u>Description of Point(s) of Receipt</u>	<u>POI</u>	<u>Nov - Apr</u>	<u>May - Oct</u>
CS #2	25412	200	982
CS #3	25309	0	1,218
TOTAL MDQ:		200	2,200

Shipper to provide Retainage pursuant to Retainage Reimbursement Charge Adjustment provisions of Transporter's FPSC Gas Tariff, General Terms and Conditions as amended.

* Exclusive of Retainage for Transporter's Fuel

FLORIDA COAST PAPER COMPANY

By: Terrill O. Allen

Title: GENERAL MANAGER

Attest: Donna C. Maxwell
(To be attested if not signed by an officer of the company.)

ST. JOE NATURAL GAS COMPANY

By: Steve Proff

Title: President

Date of this First Revised Exhibit A superseding Exhibit A dated December 13, 1993: August 1, 1997

EXHIBIT 4

First Revised Exhibit B
to
Large Interruptible Service
between
St. Joe Natural Gas Company
and
St. Joe Forest Products Company
Dated
December 13, 1993

Point(s) of Delivery: Maximum Daily Quantities (MMBtu's)*

Description of Point(s) of Delivery	POI	Nov - Apr	May - Oct
SJNG - Paper Mill	0885	200	2,200
TOTAL MDQ:		200	2,200

FLORIDA COAST PAPER COMPANY

By: *Ferris Olden*

Title: GENERAL MANAGER

Attest: *Lenna C. Maxwell*
(To be attested if not signed by an officer of the company.)

ST. JOE NATURAL GAS COMPANY

By: *Robert Roof*

Title: President

Date of this First Revised Exhibit B superseding Exhibit B dated December 13, 1993: August 1, 1997

SECURITY AGREEMENT

ST. JOE NATURAL GAS COMPANY, INC., a Florida corporation with its principal place of business at 301 Long Avenue, Port St. Joe, Florida, hereinafter called "Debtor", and ST. JOE FOREST PRODUCTS COMPANY, INC., a Florida corporation with its principal place of business at First Street, Port St. Joe, Florida, hereinafter called "Secured Party", hereinafter agree as follows:

1. Creation of Security Interest: The Debtor hereby grants to the Secured Party a security interest in a twenty-four mile, more or less, eight-inch steel gas main along certain easements and rights-of-way, more particularly set forth in certain drawings numbered PH2-001, PH2-002, and PH2-003, respectively, copies of which are attached hereto and incorporated herein by reference.

2. Debtor's Obligation: Debtor shall pay to Secured Party, any and all pre-paid gas which has accrued pursuant to that certain Sale and Purchase Agreement between Debtor and Secured Party dated the 23rd day of August, 1991. Such pre-paid gas accruing pursuant to said Sale and Purchase Agreement shall accrue interest at the prime rate, as determined by base rate on corporate loans at large U. S. money center commercial banks as published in the Wall Street Journal for the last business day of the billing month. Interest shall commence to accrue on such pre-paid gas on the date purchaser makes payment to lender.

3. Payment: Monthly payments of accrued pre-paid gas shall be made by Debtor in accordance with the following terms:

- a. Should purchaser purchase or transport 1,895,808

therms or more during any given month during the duration of this agreement, Seller shall promptly apply all such monthly net proceeds to satisfy such pre-paid gas which has accrued to purchaser pursuant to the Sale and Purchase Agreement.

b. Seller shall account for all monthly net proceeds as defined in Section I(g) of the Sale and Purchase Agreement of even date, and any accrued monthly net proceeds will be first used by Seller to offset any pre-paid gas which may accrue under Section II(c)(ii) or Section II(c)(iii) of the Sale and Purchase Agreement of even date.

4. Default: In the event that the Debtor fails to pay as may be required under paragraph 3, all unpaid accrued pre-paid gas, with interest, at the secured party's option, shall become immediately due and payable, and in consideration of such right of acceleration, secured party shall be entitled to any and all remedies available under the Uniform Commercial Code enforced in the State of Florida on the date of this agreement.

DATED this 23rd day of August, 1991.

ST. JOE NATURAL GAS COMPANY, INC.

By Stuart L. Shoaf
Stuart L. Shoaf, Its President

ST. JOE FOREST PRODUCTS COMPANY

By Robert E. Nedley
Robert E. Nedley, Its President

**SERVICE AGREEMENT
FOR
CONTRACT TRANSPORTATION SERVICE**

THIS AGREEMENT, entered into this 8th day of September, 1997, by and between **ST. JOE NATURAL GAS COMPANY, INC.**, a Florida corporation (hereinafter called "Company"), and **FLORIDA COAST PAPEP COMPANY, LLC**, (hereinafter called "Customer").

WITNESSETH:

WHEREAS, as a result of and pursuant to a Settlement Agreement that has been entered into contemporaneously herewith ("Exhibit A") Customer is interested in obtaining transportation service from Company and Company is willing to provide contract transportation service to Customer pursuant to the terms of this Agreement; and

WHEREAS, Customer has completed and submitted to Company a Request For Transportation Service in accordance with the rules and regulations contained in Company's gas tariff.

WHEREAS, Customer has arranged for the interstate transportation of its supplies of Gas to the Company's Receipt Point(s);

WHEREAS, Customer desires that, upon delivery of Customer's Gas for Customer's account at the Company's Receipt Point(s), Company shall cause such Gas to be redelivered to Customer at the Customer's Delivery Point(s) named on Exhibit "C" attached hereto;

WHEREAS, Company is willing to provide the contract transportation service described above pursuant to Company's tariff on file with the Florida Public Service Commission ("FPSC") and the terms and conditions of this Agreement.

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

ARTICLE I Definitions

Unless otherwise defined herein, the terms used in this Agreement shall have the meaning ascribed to them in the Settlement Agreement and the Company's tariff.

ARTICLE II Quantities

1. Maximum Daily Transportation Quantity ("MDTQ"). The MDTQ is set forth on a seasonal basis on Exhibit "C" attached hereto. The applicable MDTQ shall be the largest daily quantity of gas expressed in MMBtu, that Company is obligated to transport and make available for delivery to Customer under this Service Agreement on any one day.
2. Nomination. Customer may nominate or tender gas for transportation to Company any day, up to the MDTQ plus Company's Fuel, if applicable. Company agrees to receive the aggregate of the quantities of Gas that Customer tenders by nomination or for transportation at the Receipts Point(s), up to the maximum daily quantity specified for the Receipt Point(s) as set out on Exhibit "B", and make available for delivery to Customer at Customer's delivery point(s), up to the maximum daily quantity at such Delivery Point(s) specified on Exhibit "C", the amount nominated or tendered by Customer less Company's Fuel, if applicable; provided, however, that Company is not required to accept for transportation and make available for delivery more than the MDTQ on any one day.
3. Capacity. Customer shall not hold Company liable in damages or otherwise for pipeline capacity which Customer is not permitted to receive as a result of curtailment of pipeline capacity by Company pursuant to the general terms and conditions of the curtailment plan in the Company's tariff on file with the FPSC, except to the extent that such curtailment is shown to be the result of Company's negligence, bad faith, fault or willful misconduct.

ARTICLE III Rate and Payment

1. Rate. Customer shall pay for all gas service rendered hereunder, the price(s) established under Rate Schedule CTS - Contract Transportation Service contained in Company's gas tariff, as filed with the FPSC and as the same may be legally amended or superseded from time to time. The

parties agree that as of the date this Agreement was executed a customer charge of \$1,000.00 per month and a non-fuel charge of .04590 per therm is currently applicable under Rate Schedule CTS.

2. Minimum Payments.

A. Payments Until the NationsBank Loan is Paid.

(i) Minimum Monthly Payments.

Until the NationsBank Loan is paid in full, Customer shall, on a monthly basis, pay Company for a minimum of 36,750 decatherms per month at the applicable tariff rate regardless of the gas actually transported.

(ii) Minimum Annual Payments.

Until the NationsBank Loan is paid in full, Customer shall pay to Company for a minimum of 792,820 decatherms over a contract year at the applicable tariff rate regardless of the gas actually transported. In the event that the NationsBank Loan is paid in full during a contract year, the minimum annual payment shall be established as the sum of the following: 792,820 decatherms multiplied by a fraction, the numerator of which is the total number of months in the contract year during which the NationsBank Loan was outstanding, and the denominator of which is twelve (12), multiplied by the applicable tariff rate; plus, 441,000 decatherms multiplied by a fraction, the numerator of which is the total number of months remaining in the contract year after the NationsBank Loan is paid in full, and the denominator of which is twelve (12), multiplied by the applicable tariff rate. For example, in the event that the NationsBank Loan is paid in full during the month of January, 1999, the minimum annual payment for that contract year would be established as follows: (792,820 decatherms x 5/12 x applicable tariff rate) + (441,000 decatherms x 7/12 x applicable tariff rate).

B. Payments After NationsBank Loan is Paid.

(i) Minimum Payments After NationsBank Loan is Paid in Full.

Except as provided in Article III ¶2.A.(ii) above, after the NationsBank Loan is paid in full, Customer shall pay Company for

a minimum of 441,000 decatherms over a contract year at the applicable tariff rate regardless of the gas actually transported and, except for the customer charge which is now established at \$1,000.00 per month, no monthly minimum shall apply.

3. Customer shall pay Company for all services rendered hereunder the rates established under Company's CTS Rate Schedule, as amended from time to time. Should Customer fail to pay all of the amount of any bill when the same becomes due, Customer's gas service shall be subject to interruption in accordance with the Company's tariff.
4. For purposes of this Agreement, "contract year" shall run from September 1 of the applicable year through and including August 31 of the following year.

ARTICLE IV Term of Agreement

1. Effective Date. This Agreement shall become effective on the date first set forth above and shall continue in effect until the NationsBank Loan is paid in full and the balance of Customer's prepaid gas account is reduced to zero pursuant to the Settlement Agreement. Thereafter, this Agreement shall continue from year to year unless and until terminated by Company or Customer upon one-hundred eighty (180) days prior written notice to the other specifying a termination date at the end of such period or any yearly period thereafter.

ARTICLE V Points of Receipt and Delivery

1. The Primary Receipt Point(s) and the Maximum Daily Quantity(s), for all gas delivered by Customer into Company's pipeline system under this agreement shall be at the Point(s) of Receipt on Company's pipeline system as set forth in Exhibit "B" attached hereto.
2. The Primary Delivery Point(s) and the Maximum Daily Quantity(s), for all gas made available for delivery by Company to Customer, under this agreement shall be at the Point(s) of Delivery as set forth in Exhibit "C" attached hereto.
 - A. The Point(s) of Delivery for all gas delivered under this Agreement shall be at the outlet side of the meter to be installed and

maintained by Company, at or adjacent to, Customer's plant site, to be determined by mutual agreement between Company and Customer.

- B. Company shall have the privilege of entering upon the property and plant site of the Customer for the purpose of reading of the meter and providing proper maintenance of the metering equipment.

ARTICLE VI Notices

1. 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 address designated by writing by the party:

ADMINISTRATIVE MATTERS & PAYMENT

Company: St. Joe Natural Gas Company, Inc.
301 Long Avenue
Post Office Box 549
Port St. Joe, FL 32456-0549
Attention: Stuart Shoaf
Telephone: (904) 229-8216
Fax: (904) 229-8392

Customer: Florida Coast Paper Co., L.L.C.
P.O. Box 6000
Port St. Joe, FL 32457

Attention: Donna C. Maxwell

Telephone: 850-227-2223

Fax: 850-227-2391

ARTICLE VII
Regulatory Authorization and Approvals

1. Company's obligation to provide service shall be in accordance with the terms and conditions of this Agreement, Rate Schedule CTS and General Terms and Conditions of Company's gas tariff filed with the FPSC.

ARTICLE VIII
Miscellaneous

1. Tariff Changes. Company may seek changes in its Tariff upon filing with, and receiving approval from, the FPSC.
2. Assignment. Customer and Company agree that neither Party may assign its interest under the Settlement Agreement, the Large Volume Service Agreement, the Sale and Purchase Agreement, the LIS Agreement, or the CTS Agreement except with the prior written consent of the other Parties, which consent shall not be unreasonably withheld. Without limiting or restricting the generality of the foregoing, it shall not be unreasonable for a party to deny its consent where, in its opinion, acting reasonably, the proposed assignee, purchaser or transferee lacks the capacity or resources necessary to ensure the proper conduct and completion of its obligations under these agreements over the remaining portion of the respective terms thereof. No assignment shall operate to release the assigning Party from its obligations hereunder unless such Party is expressly released from its obligations by the other Parties.
3. No Waiver. No waiver by either party of any one or more defaults by the other in the performance of any provision of this Agreement shall operate or be construed as a waiver of any future default or defaults of the like or a different character.
4. Governing Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Florida notwithstanding another jurisdiction.
5. Headings. All article headings, section headings and subheadings are inserted for convenience only and shall not affect any construction or interpretation of this Agreement.
6. Severability. If any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable, or void, this

Agreement shall continue in full force and effect without said provision; provided, however, that if such severability materially changes the economic benefits of this Agreement to either party, the parties shall negotiate an equitable adjustment in the provisions of this Agreement in good faith.

7. Amendments. Neither this Agreement, nor any of the terms hereof, may be terminated, amended, supplemented, waived or modified except by an instrument in writing signed by both Company and Customer. A change of the place to which notices pursuant to this Agreement must be sent shall not be deemed nor require any amendment of this Agreement provided that such change is communicated in accordance with the notice provisions of this Agreement.
8. Counterparts. This Agreement may be executed in two (2) or more counterparts, all of which taken together shall constitute one and the same instrument and each of which shall be deemed an original instrument as against the party who has signed it.
9. Legal Fees. In the event of litigation between the parties hereto arising out of or in connection with this Agreement, then the reasonable attorneys' fees and costs of the party prevailing in such litigation shall be paid by the other party.
10. Representations and Warranties of Customer. Customer represents and warrants to and for the benefit of Company that, as of the date of this Agreement: Customer has full power, authority and legal right to carry on its business as presently conducted and to enter into and perform its obligations under this Agreement and all other agreements entered into or undertaken in connection with the transactions contemplated hereby; and the execution, delivery and performance by Customer of this Agreement have been duly authorized and all required action for such authorization has been taken.
11. Retainage. As an allowance for shrinkage in providing transportation service hereunder, Company shall be entitled to retain, at no cost to Company, a percentage of the quantity of Gas delivered by, or tendered to Company for the account of, Customer at each Company Receipt Point(s), in an amount equal to five tenths of one percent (0.5%) by volume. Notwithstanding the foregoing, then the Retainage hereunder shall, upon notice by Company to Customer, be increased or decreased prospectively as approved by the FPSC.

IN WITNESS WHEREOF, the parties have executed this Agreement by their duly authorized officials on the dates set forth below:

**ST. JOE NATURAL GAS
COMPANY, INC.**

By: Michael Moad

Title: President

Authorized Representative of
St. Joe Natural Gas Company,
Inc.

Attest: Quinn Drogaf

**FLORIDA COAST PAPER
COMPANY, LLC**

By: James (Bill) [Signature]

Title: GENERAL MANAGER

Authorized Representative of
Florida Coast Paper Company,
LLC

Attest: Donna C. Maxwell

EXHIBIT "B"
TO
CONTRACT TRANSPORTATION SERVICE AGREEMENT
BETWEEN
ST. JOE NATURAL GAS COMPANY, INC.
AND
FLORIDA COAST PAPER COMPANY, LLC

MAXIMUM DAILY TRANSPORTATION QUANTITY:

<u>SEASON</u>	<u>POI</u>	<u>DESCRIPTION OF RECEIPT POINT(S)</u>	<u>MDTQ (MMBtu)*</u>
November-April	56657	St. Joe Overstreet	(MDQ) 10,000
May-October	56657	St. Joe Overstreet	(MDQ) 10,000

Customer to provide Retainage pursuant to Service Agreement and provisions of Company's FPSC Gas Tariff, Rules and Regulation.

- * Exclusive of Company's Retainage

EXHIBIT "C"

TO

CONTRACT TRANSPORTATION SERVICE AGREEMENT

BETWEEN

ST. JOE NATURAL GAS COMPANY, INC.

AND

FLORIDA COAST PAPER COMPANY, LLC

POINT(S) OF DELIVERY:

<u>SEASON</u>	<u>POI</u>	<u>DESCRIPTION OF DELIVERY POINT(S)</u>	<u>MAXIMUM DAILY QUANTITIES (MMBtu)</u>
November-April	0885	SJNG-Paper Mill	10,000
May-October	0885	SJNG-Paper Mill	10,000

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