

CONFIDENTIAL

REDACTED



November 24, 2004

041393-EI

Mr. Robert F. Caldwell
Florida Power Corporation
d/b/a Progress Energy Florida, Inc.
410 South Wilmington Street
Raleigh, North Carolina 27601

Re: Contracts for the Purchase of Capacity and Energy and Plant Miller

Dear Mr. Caldwell:

On behalf of one or more of Georgia Power Company ("Georgia Power"), Gulf Power Company ("Gulf Power") and Southern Power Company ("Southern Power"), Southern Company Services, Inc. together with Florida Power Corporation, doing business as Progress Energy Florida, Inc ("FPC") have entered into two (2) Contracts for the Purchase of Capacity and Energy described below (collectively the "PPAs"), each dated as of November 24, 2004. As used in this letter agreement, "SCS" means Southern Company Services, Inc. as agent for one or more of Alabama Power Company ("Alabama Power"), Georgia Power, Gulf Power and Southern Power.

1. Each of the PPAs involve the sale of capacity and energy to FPC beginning June 1, 2010 from a specified generation resource. Specifically, one PPA involves a portion of Plant Scherer Unit 3 owned by Georgia Power and Gulf Power ("Scherer PPA") and one PPA involves Southern Power's Franklin Unit 1 ("Franklin PPA"). Through this letter agreement, the parties desire to set forth their understanding regarding possible transactions involving capacity and energy from portions of Alabama Power's Plant Miller in the event that such portions become available (under the circumstances described below) to SCS for making wholesale power transactions.

2. Alabama Power is the owner of Plant Miller Units 1 through 4 located in Jefferson County, Alabama. Currently, a portion of the capacity and associated energy from those units is being sold at wholesale to Florida Power Corporation, Florida Power & Light Company and Jacksonville Electric Authority (such portion is referred to as the "Miller Capacity"). Beginning on June 1, 2010, it is Alabama Power's current intention to no longer make long term (i.e., greater than one (1) year) wholesale sales from the Miller Capacity [REDACTED]

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[REDACTED]

3. However, in the event that Alabama Power finally determines in its sole discretion that it will sell a portion of the Miller Capacity at wholesale on a long term basis during any time from June 1, 2010 to December 31, 2015, then SCS shall [REDACTED] provide notice to FPC that Alabama Power has made such determination ("Miller Notice"). The portion of the Miller Capacity that Alabama Power determines to sell in this manner shall be referred to herein as the "Available Miller Capacity." The Miller Notice shall also specify the time period for which Alabama Power intends to sell such Available Miller Capacity at wholesale ("Sale Term"). Upon FPC's receipt of the Miller Notice, FPC shall have 30 days to notify SCS ("Miller Discussion Notice") that it desires to enter into discussions regarding the purchase of the lesser of: [REDACTED]

[REDACTED]

4. If FPC does not provide the Miller Discussion Notice in a timely manner, SCS shall be free to market and sell the Subject Miller Capacity to any third party(ies) without restriction and without further obligation to FPC.

5. If FPC provides the Miller Discussion Notice in a timely manner, SCS shall engage in discussions exclusively with FPC for a period of 90 days after SCS receives the Miller Discussion Notice ("Miller Discussion Period") regarding a potential sale of all of the capacity and energy from all of the Subject Miller Capacity for a term equal to the Sale Term, but in no event beyond December 31, 2015 unless the parties mutually agree otherwise. In connection therewith, SCS shall provide FPC with SCS's proposal regarding the following terms for such sale: (i) capacity and energy prices; (ii) the charge for variable operation and maintenance costs; (iii) heat rate; and (iv) availability guarantees (such terms in (i) through (iv) are referred to as the "Specified Terms"); provided, however, neither party shall be required to enter into any agreement for the purchase or sale of the Subject Miller Capacity.

6. If the parties are unable to reach a mutually acceptable agreement during the Miller Discussion Period regarding such purchase and sale, SCS shall be free to market and sell the Subject Miller Capacity to other parties. Notwithstanding the foregoing sentence, however, for a period of [REDACTED] after the end of the Miller Discussion Period, before SCS sells some portion of the capacity and energy from the Subject Miller Capacity ("Marketed Portion") to any other party at Specified Terms materially more favorable in the aggregate than the Specified Terms previously offered to FPC (without regard to any other terms and conditions of a potential transaction) (such more favorable Specified Terms are referred to herein as the "Miller Specified Terms"), SCS shall first provide FPC the right to negotiate to purchase all of the capacity and energy from the Marketed Portion under the Miller Specified Terms for a term equal to the Sale Term (but in no event beyond December 31, 2015 unless the parties mutually

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agree otherwise). However, in order to exercise such right to negotiate, FPC must provide SCS notice within [REDACTED] after receiving the Miller Specified Terms. If FPC timely provides such notice, SCS shall engage in such negotiations with FPC for a period [REDACTED] provided, however, neither party shall be required to enter into any agreement for the purchase or sale of the Subject Miller Capacity.

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7. In the event that the parties enter into an agreement for the purchase and sale of capacity and energy from the Subject Miller Capacity as contemplated in this letter agreement ("Miller Agreement"), the parties shall negotiate to reduce the amount of capacity and energy purchased by FPC under the Franklin PPA during the term of the Miller Agreement by reducing such capacity and energy on a megawatt for megawatt basis from the Franklin PPA. [REDACTED]

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[REDACTED]

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[REDACTED] In addition, if the amount of capacity purchased under the Franklin PPA is reduced, the parties shall negotiate to reach agreement on appropriate modifications to the terms of such PPA (including those pertaining to heat rate and scheduling requirements (as applicable) and appropriate pro rata reductions in the megawatt amounts in Section 7.4 of such PPA) that reflect the reduction in capacity purchased under that PPA. If the parties are unable to reach agreement on such modifications within [REDACTED] the Miller Agreement shall terminate and [REDACTED]

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[REDACTED] the parties shall be obligated to sell and purchase the full amount of capacity and energy (prior to any reductions under this paragraph) under the PPAs as they were originally executed by the parties.

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8. In the event that the parties do not reach a mutually acceptable agreement for the purchase and sale of capacity and energy from the Subject Miller Capacity as contemplated in this letter agreement, the PPAs will be unaffected.

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9. This letter agreement shall immediately terminate upon the earlier to occur of: [REDACTED]

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[REDACTED] Upon such termination, neither SCS nor any of its affiliates shall have any obligation to FPC hereunder with respect to the Miller Capacity or any portion thereof.

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10. To the extent this letter agreement is not terminated as provided in paragraph 9 above, this letter agreement shall terminate upon the earlier to occur of: (i) the expiration and/or termination of the Franklin PPA; (ii) the assignment by FPC of any of its rights or obligations under either of the PPAs to any other party; (iii) an Event of Default (as defined in the PPAs) under either PPA by FPC; or (iv) December 31, 2015.

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Upon such termination, no party shall have any further liability or obligation to the other under this letter agreement.

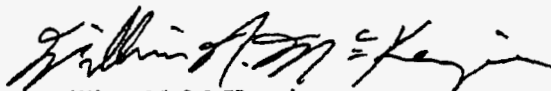
11. Any notice required under this letter agreement shall be in writing and shall be deemed provided when received. Facsimile (and the receipt thereof by the receiving party) shall be an acceptable form of notice; provided, however, that a paper copy of such notice must also be mailed to the receiving party on the day of such facsimile.

12. This letter agreement and the terms hereof shall be deemed to be Confidential Information under and as defined by the PPAs.

If the foregoing accurately reflects FPC's understanding, please sign your name on behalf of FPC in the space provided below.

Sincerely,

SOUTHERN COMPANY SERVICES, INC.



William N. McKenzie

Vice President, Business Development

As agent for

Alabama Power Company

Georgia Power Company

Gulf Power Company


Southern Power Company

*scs
Hmw*

AGREED AND ACCEPTED

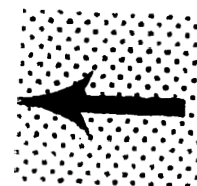
FLORIDA POWER CORPORATION D/B/A
PROGRESS ENERGY FLORIDA, INC.

By:



Name: Robert F. Caldwell

Title: Vice President, Regulated Commercial Operations



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November 24, 2004

Mr. Robert F. Caldwell
Florida Power Corporation
d/b/a Progress Energy Florida, Inc.
410 South Wilmington Street
Raleigh, North Carolina 27601

Re: Contracts for the Purchase of Capacity and Energy and Plant Scherer

Dear Mr. Caldwell:

On behalf of one or more of Georgia Power Company ("Georgia Power"), Gulf Power Company ("Gulf Power") and Southern Power Company ("Southern Power"), Southern Company Services, Inc. together with Florida Power Corporation, doing business as Progress Energy Florida, Inc. ("FPC") have entered into two (2) Contracts for the Purchase of Capacity and Energy described below (collectively the "PPAs"), each dated as of November 24, 2004. As used in this letter agreement, "SCS" means Southern Company Services, Inc. as agent for one or more of Georgia Power, Gulf Power and Southern Power.

1. Each of the PPAs involves the sale of capacity and energy to FPC beginning June 1, 2010 from a specified generation resource. Specifically, one PPA involves a portion of Plant Scherer Unit 3 owned by Georgia Power and Gulf Power ("Scherer PPA") and one PPA involves Southern Power's Franklin Unit 1 ("Franklin PPA"). Through this letter agreement, the parties desire to set forth their understanding regarding possible transactions involving capacity and energy from another portion of Plant Scherer Unit 3 in the event that such portion becomes available (under the circumstances described below) to SCS for making wholesale power transactions.

2. Georgia Power and Gulf Power are the owners of an additional portion of Plant Scherer Unit 3 that has a capacity of 75 MW and which is not involved in the Scherer PPA ("Additional Scherer Capacity").

[REDACTED]

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3. In the event that SCS finally determines in its sole discretion that the Third Party will not be obligated to purchase all or a substantial portion of the Additional Scherer Capacity, SCS [REDACTED] provide FPC notice of such determination. Upon FPC's receipt of such notice, FPC shall [REDACTED] to notify SCS ("Scherer Notice") that it desires to purchase [REDACTED] of the capacity and energy associated with the Additional Scherer Capacity that is not sold to the Third Party (such amount of the Additional Scherer Capacity is hereinafter referred to as the "Subject Scherer Capacity.")

4. If FPC provides the Scherer Notice in a timely manner, the parties shall [REDACTED] such notice execute a binding agreement in substantially the form of the Scherer PPA whereby SCS shall sell and FPC shall purchase all of the capacity and energy from the Subject Scherer Capacity (provided that any provisions conditioning the parties' obligations or the agreement on FPC's ability to obtain transmission service and/or regulatory approval shall not allow any party to terminate or otherwise modify any of the PPAs). In the event that FPC does not provide the Scherer Notice in a timely manner, SCS shall be entitled to sell such capacity and energy to any other party without restriction and shall have no further obligation to FPC regarding any portion of the Additional Scherer Capacity. In the event that the parties enter into an agreement for the purchase and sale of all of the capacity and energy associated with the Subject Scherer Capacity as contemplated in this letter agreement ("Second Scherer Agreement"), the parties shall negotiate to reduce the capacity and energy purchased by FPC on a megawatt for megawatt basis from the Franklin PPA. [REDACTED]

[REDACTED] In addition, if the amount of capacity purchased under the Franklin PPA is reduced, the parties shall negotiate to reach agreement on appropriate modifications to the terms of such PPA (including those pertaining to heat rate and scheduling requirements (as applicable) and appropriate pro rata reductions in the megawatt amounts in Section 7.4 of such PPA) that reflect the reduction in capacity purchased under that PPA. If the parties are unable to reach agreement on such modifications [REDACTED] after the Second Scherer Agreement is executed, the Second Scherer Agreement shall terminate and [REDACTED]

[REDACTED] the parties shall be obligated to sell and purchase the full amount of capacity and energy (prior to any reductions under this paragraph) under the PPAs as they were originally executed by the parties.

5. In the event that SCS finally determines in its sole discretion that the Third Party will be obligated to purchase all or a substantial portion of the Additional Scherer Capacity, SCS shall provide FPC with written notice of the same and, upon such notice, this letter agreement shall immediately terminate. Upon such termination, neither SCS nor any of its affiliates shall have any obligation to FPC hereunder with respect to the Additional Scherer Capacity or any portion thereof.

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6. To the extent this letter agreement is not terminated as provided in paragraph 5 above, this letter agreement shall terminate upon the earlier to occur of: (i) the expiration and/or termination of the Franklin PPA; (ii) the assignment by FPC of any of its rights or obligations under either of the PPAs to any other party; (iii) an Event of Default (as defined in the PPAs) under either PPA by FPC; or (iv) December 31, 2015. Upon such termination, no party shall have any further liability or obligation to the other under this letter agreement.

7. Any notice required under this letter agreement shall be in writing and shall be deemed provided when received. Facsimile (and the receipt thereof by the receiving party) shall be an acceptable form of notice; provided, however, that a paper copy of such notice must also be mailed to the receiving party on the day of such facsimile.

8. This letter agreement and the terms hereof shall be deemed to be Confidential Information under and as defined by the PPAs.

If the foregoing accurately reflects FPC's understanding, please sign your name on behalf of FPC in the space provided below.

Sincerely,

SOUTHERN COMPANY SERVICES, INC.



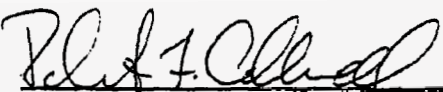
William N. McKenzie
Vice President, Business Development
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Georgia Power Company
Gulf Power Company
Southern Power Company

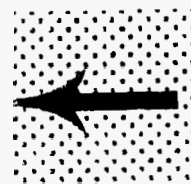


AGREED AND ACCEPTED

FLORIDA POWER CORPORATION D/B/A
PROGRESS ENERGY FLORIDA, INC.



By: 
Name: Robert F. Caldwell
Title: Vice President, Regulated Commercial Operations



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3. Please describe any dispatch rights Progress will have for Scherer Unit 3 and Franklin Unit 1 under the Unit Power Sales Agreements.

RESPONSE: [REDACTED]

[REDACTED]

[REDACTED]

These scheduling provisions are similar to those provided in the existing 1988 UPS agreement. However, the existing agreement called for Progress Energy (then Florida Power Corporation) to schedule energy from the designated units in excess of a fifty percent output factor on an annual basis through the year 2000.

[REDACTED]

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6. Page 3 of the petition describes how energy charges for the Southern Company agreements will be based on a guaranteed heat rate at the Franklin unit but an actual heat rate at the Scherer unit. Please explain why different heat rates are used.

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RESPONSE: Due to the differences in fuel types, there is a difference in the way energy charges are calculated for the two units. For Scherer Unit 3, which burns coal, the heat rate may vary due to the fuel used in the unit.

[REDACTED]

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Regarding the Franklin combined cycle unit, there is not an effect on heat rate due to the burning of natural gas. There is, however, an effect due to varying the output of the combined cycle unit.

[REDACTED]

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