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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Progress Energy Florida, Inc.'s Petition for Approval of Southeast Supply Header long-term fuel transportation contracts.	))))	Docket No. 060793-EI Filed: December 12, 2006

DIRECT TESTIMONY OF KENT FONVIELLE

ON BEHALF OF PROGRESS ENERGY FLORIDA

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DIRECT TESTIMONY OF KENT FONVIELLE

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name, employer, and business address.

A. My name is Kent Fonvielle and I am employed by Progress Energy. My business address is 410 S. Wilmington Street, Raleigh, North Carolina 2760l.

Q. Please tell us your position with Progress Energy and describe your duties and responsibilities in that position.

A. I am the Manager of Fuel Planning and Origination for Progress Energy. As the Manager of Fuel Planning and Origination, I am responsible for long-term fuel planning and origination activities for Progress Energy's coal, gas and oil fired generation in the Carolinas and Florida.

Q. Please summarize your educational background and employment experience.

A. I received a Bachelor of Science Degree in Civil Engineering from North Carolina State University in 1991 and a Masters in Business Administration from the Cameron School of Business at the University of North Carolina at Wilmington in 1997. I started my career in 1991 as an engineer with Duke Power Company. I joined Progress Energy in 1993 as an engineer responsible for structural design of modifications at Progress Energy's Brunswick Nuclear Plant. In 1995, I was promoted to the position of Senior Engineer and served as the Corrective Action Program Manager for the engineering support section of the Brunswick Nuclear Plant. In 1997, I moved into the position of Account Executive with the responsibility for managing Progress Energy's large commercial, industrial and government accounts. From 2000 through 2004, I served as Wholesale Account Manager. In that capacity, I was responsible for managing Progress Energy Carolinas' Power Plant Joint Ownership Contracts and negotiating new wholesale contracts and wholesale contract extensions. In January of 2004, I was made Wholesale Market Manager responsible for developing long- term wholesale market strategy for Progress Energy Carolinas, including the analysis of market and regulatory risks, and identification of strategic opportunities. From August 2004 through August 2005, I served as the Sales Manager for Progress Materials, Inc. ("PMI"), with responsibility for business development activities involving proprietary technology developed by PMI which converts waste coal ash into a marketable product for the concrete industry. In August of 2005, I undertook my present position as Manager of Fuel Planning and Origination in Progress Energy's Regulated Fuels Department.

Q. Are you sponsoring any exhibits to your testimony?

A. Yes, I am sponsoring Composite Exhibit ____, consisting of Exhibits KF-1 and KF-2, which are attached to my testimony. Exhibit KF-1 contains the relevant agreements that outline and provide the rates, terms and conditions associated with the natural gas transportation service that PEF intends to purchase under the SESH Pipeline Project. Exhibit KF-2, which I prepared, provides an estimate of the total annual costs associated with PEF's proposed participation in the SESH Pipeline Project.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain the benefits of the Southeast Supply Header Pipeline Project (the "SESH Pipeline Project" or "Project") and to demonstrate that the Project, and the terms and conditions of the contracts associated with the Project, represent the best and most prudent alternative for PEF to enhance the certainty, reliability, and diversity of the supply and transportation of natural gas for PEF's customers.

III. SOUTHEAST SUPPLY HEADER PIPELINE PROJECT

Q. What is the Southeast Supply Header ("SESH") Pipeline Project?

A. The SESH Pipeline Project is a joint project of CenterPoint Energy Gas Transmission ("CEGT") and Duke Energy Gas Transmission ("DEGT"). The potential new pipeline will have approximately 1 billion cubic feet per day of capacity and will consist of nearly 270 miles of 36-inch pipeline starting at CEGT's Perryville Hub in Northeast Louisiana and ending at the pipeline of DEGT's partially owned affiliate, Gulfstream Natural Gas System pipeline, near Mobile County, Alabama. The proposed route will cross and interconnect with many major interstate pipelines serving the eastern United States that are not currently served at the Perryville Hub, including both major pipelines that serve Florida. The SESH Pipeline Project will allow PEF access to growing production from natural gas basins in East Texas and North Louisiana, which will provide an important alternative natural gas supply source for markets in the Southeast and supplement the future natural gas demands of Florida.

Q. What are the critical reasons for PEF's proposed participation in the SESH Pipeline Project?

A. There are a number of key drivers behind PEF's proposed decision to participate in the SESH Pipeline Project. First and foremost, the SESH Pipeline Project will allow PEF to gain access to a substantial number of on-shore suppliers of natural gas which will significantly increase supply security and certainty, and have the additional benefit of diversifying production away from the Gulf of Mexico. In addition, participation in the Project could also result in lower commodity prices thereby producing customer savings. Currently, approximately sixty-eight percent of PEF's transportation capacity on the Florida Gas Transmission Pipeline and one hundred percent of PEF's transportation capacity on the Gulfstream Natural Gas System Pipeline transports natural gas supply that is originated from the Mobile Bay area. These existing interstate pipelines will continue to transport a significant portion of natural gas supplied from the Gulf of Mexico in the Mobile Bay area. However, demand for natural gas will continue to grow and future demand can be met only by securing supplemental sources of natural gas from other regions. Without the addition of the SESH Project, by 2009, approximately 78% percent of PEF's transportation capacity on FGT and Gulfstream will be dependent on gas supply originated from the Mobile Bay area. With declining production in this area and increased demand for natural gas, PEF believes that this Project will help maintain an adequate balance between supply and demand in the region that will assure PEF's customers and other Florida consumers access to natural gas supplies at reasonable prices in the future.

Although pipeline transportation in the Mobile Bay area has proven to be highly reliable during recent storms, gas production, on the other hand, in the

Mobile Bay area has been and remains highly susceptible to production shut-ins due to the threat or impact of hurricanes, tropical storms and other severe weather events. The introduction of on-shore supply sources will increase the availability of natural gas during severe weather events.

Q. If the Commission approves PEF's participation in the SESH Pipeline Project, what transportation rights will PEF acquire and how will these rights help diversify PEF's sources of supply?

A. PEF is proposing to acquire firm transportation rights to approximately 20% of the capacity on the new pipeline. By 2009, the SESH Pipeline would support 200,000 MMBtu per day of PEF's total Mobile Bay area firm transportation holdings of approximately 400,000 MMBtu per day. Thus, the effect of the SESH Project will be to reduce PEF's reliance on gas supply originated from Mobile Bay in 2009 from approximately 78% to approximately 39%.

Q. Are you familiar with the agreements that set forth the rates, terms and conditions for PEF's proposed participation in the SESH Pipeline Project?

A. Yes, I was the lead negotiator with CEGT and DEGT on this Project. I am intimately familiar with the terms and conditions of all of the agreements. The agreements are attached to my testimony as Exhibit KF-1 and consist of a Precedent Agreement, Service Agreements, and other agreements that PEF entered into on December 5, 2006 with Southeast Supply Header, LLC.

Q. Will this project impact the available pipeline capacity into the State of Florida?

A. No, the Project will not impact the amount of available pipeline capacity into the State of Florida. That is not the purpose of the Project. The overarching purpose of the Project is to increase supply certainty and reliability by increasing the number and geographical diversity of natural gas suppliers from whom PEF may purchase natural gas. Such purchases will ultimately be transported into the State of Florida through the Mobile Bay area over the existing interstate pipelines. PEF will continue to utilize its existing firm transportation contracts with FGT and Gulfstream to deliver natural gas to its plants. In addition, by increasing the number and diversity of alternatives for natural gas supply, PEF will help ensure supply availability to meet future demand and enhance access to supply if production in the Gulf of Mexico is curtailed. This increased diversity and quantity of gas supply may also provide the benefit of more competitive pricing for PEF and its customers.

Q. What is the role of the Project in helping PEF meet its increasing natural gas requirements?

A. PEF expects transportation rights over the SESH Pipeline to play a critical role in securing increased levels of competitively priced natural gas to meet anticipated future demand. In the past, natural gas originated from the Mobile Bay area has been transported over the interstate pipelines into the State of Florida to meet increased demand. While the Mobile Bay area will continue to serve as an important source for meeting current and future demand, it lacks the production growth necessary to satisfy PEF's growing demand for natural gas. PEF's demand will grow by approximately 200,000 MMBtu per day over the next four years. In addition, the demand for natural gas in Florida, as a whole, continues to increase. According to data compiled by the FRCC from 2006 Ten Year Site Plans, Florida will need an additional 1,200,000 MMBtu per day of natural gas to meet the proposed generation expansions (natural gas) by 2010. It is critical for PEF and Florida that every effort is made to access new supplies to keep up with growing demand.

Q. Can you provide more specific information regarding the increased number of potential suppliers of natural gas to PEF expected as a result of the Project?

A. Yes. The Project will allow PEF access to a new group of natural gas suppliers and on-shore supply from the Barnett Shale and Bossier Sands trends in East Texas and Northeast Louisiana, as well as other developing on-shore supply basins in the future. This Project will increase the diversity and depth of PEF's existing supplier portfolio with the addition of domestic independent producers active in the East Texas and North Louisiana supply areas.

Q. How will this Project increase supply reliability during extreme weather events?

A. Access to on-shore supply alternatives will significantly increase reliability during extreme weather events affecting the Gulf of Mexico, as off-shore production is prone to curtailments. In the event of a major storm or other catastrophic event resulting in supply disruption in the Gulf, PEF's transportation capacity rights under the SESH Pipeline Project would provide PEF access to on-shore supply sufficient to fuel approximately 1,500 MW of gas-fired capacity. The diversification of supply sources would bring PEF both enhanced reliability and the opportunity to more efficiently manage fuel inventories during a loss of natural gas supply from the Gulf of Mexico.

Q. Will this Project result in savings to PEF's customers?

A. It may. The SESH Pipeline Project will introduce 1,000,000 MMBtu per day of new supply into the Mobile Bay area. This substantial volume of long-term gas supply will have a positive impact on the overall supply/demand balance and could decrease the Mobile Bay basis (the current premium above the New York Mercantile Exchange or "NYMEX" for Mobile Bay supplies). While the primary motivation for this Project is to help meet future demand requirements and increase supply reliability and diversity, PEF believes that this Project also may result in a lower overall cost of gas for PEF's customers.

Q. When is the SESH Pipeline Project projected to be in-service?

A. Current projections are for the Project to be in-service by mid-2008.

Q. What types of costs associated with the SESH Pipeline Project is PEF seeking to recover through the Fuel Clause?

A. PEF's participation in the SESH Pipeline Project will result in, but not be limited to, two types of invoiced costs to be passed through the fuel clause: (1) fixed demand costs and, (2) variable commodity costs. These invoiced costs are related to moving natural gas under firm transportation on the new pipeline. These transportation costs are identical in nature to the transportation costs that PEF incurs under its current FGT and Gulfstream firm natural gas transportation contracts, which PEF recovers through the fuel clause as a component of the total cost of gas. As discussed in the testimony of PEF witness Javier Portuondo, these transportation costs are recoverable through the fuel clause under existing Commission policy.

Q. Has PEF estimated the annual costs for its participation in the SESH Pipeline Project?

A. Yes. In Exhibit KF-2, I have provided an estimate of PEF's total annual costs associated with its proposed participation in the SESH Pipeline Project.

Q. Did PEF consider other alternatives to meet its objectives of enhancing the certainty and reliability of natural gas supply to meet the increasing demands of its customers?

A. Yes. In addition to evaluating SESH and other pipeline projects, the Company considered three additional alternatives: purchase of on-shore supply bundled with transport delivered to Mobile Bay; additional gas storage capacity; and additional liquefied natural gas.

Q. Did the Company develop criteria against which these options, together with the SESH Pipeline Project, were evaluated?

A. Yes. The criteria used to analyze the four options were whether the option improved supply certainty into Mobile Bay, increased reliability during extreme weather, increased supplier diversity, and provided relief to the Mobile Bay supply/demand balance which would have a dampening effect on the price of natural gas sourced from Mobile Bay supplies.

Q. What were the results of the Company's evaluation of these alternatives?

A. Our evaluation of the options led to the conclusion that the SESH Pipeline Project is best suited for meeting PEF's objectives and the needs of our customers.

The on-shore bundled option involves a bundled gas supply and transportation product delivered to Mobile Bay. Although this option increases reliability and certainty of supply into Mobile Bay, it does not materially increase supplier diversity or significantly improve the long-term supply/demand balance in the region. Furthermore, since this option uses existing infrastructure from Perryville to Mobile Bay, it would not have the degree of positive impact on the overall long-term supply and demand balance as the SESH Pipeline Project. Finally, the annual costs of securing transportation capacity under the SESH Pipeline and supply from the Perryville Hub on an unbundled basis is more cost-effective than the bundled option.

PEF also considered the option of acquiring additional gas storage capacity. PEF already has executed agreements with Bay Gas Storage Company and SG Resources Mississippi, LLC for storage capacity commencing May 1, 2008. Such gas storage is an excellent physical hedge for increasing system reliability and reducing exposure to natural gas price volatility due to short-term supply disruptions and periods of high demand. Nonetheless, as demand increases, gas storage cannot, by itself, mitigate all of the risks of supply disruptions and it does not address longer term supply adequacy.

Finally, PEF considered the option to purchase additional liquified natural gas ("LNG") from Elba Island or potential new facilities in the Gulf. While additional LNG would further reduce PEF's dependence on offshore Mobile Bay area production, by 2009 PEF's existing LNG contracts with BG LNG Services, LLC will make up approximately 14% of PEF's overall portfolio. Therefore, purchasing additional LNG supplies will not in and of itself increase supply diversity. Furthermore, Gulf LNG terminals would likely experience the same disruptions, simultaneous with curtailments of offshore production due to extreme weather events in the Gulf of Mexico, thereby not providing the same reliability benefits that come with the SESH Pipeline. Finally, when compared to onshore supply, LNG introduces incremental geopolitical risks where gas exports may be curtailed due to foreign country events such as strikes, wars and terrorism.

Q. Does this conclude your testimony?

A. Yes it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Progress Energy Florida, Inc.'s Petition for Approval of Southeast Supply Header long-term fuel transportation contracts.	))))	Docket No. ______________ Filed: December 12, 2006

Exhibit KF-1 to Prefiled Direct Testimony of Kent Fonvielle

SESH Pipeline Contracts

PRECEDENT AGREEMENT

This PRECEDENT AGREEMENT ("Precedent Agreement") is made and entered into this 5th day of December, 2006, between Southeast Supply Header, LLC, a Delaware limited liability company ("Pipeline") and Florida Power Corporation d/b/a Progress Energy Florida, Inc., a Florida corporation ("Shipper"). Pipeline and Shipper are sometimes referred to herein individually as a ("Party"), or collectively as the ("Parties").

W I T N E S S E T H:

WHEREAS, Pipeline proposes to construct a new header system, which will be an interstate natural gas pipeline subject to the jurisdiction of the Federal Energy Regulatory Commission ("Commission" or "FERC"), that will extend from an interconnection with the facilities of CenterPoint Energy Gas Transmission Company ("CEGT") near Delhi, LA, in a southeasterly direction through the states of Louisiana, Mississippi and Alabama with a terminus at the proposed interconnection with Gulfstream Natural Gas System, L.L.C. ("Gulfstream") near Mobile, Alabama (the "Project");

WHEREAS, the Project will also interconnect with certain interstate pipelines, intrastate pipelines and storage facilities located along and/or proximate to the route of the Project, including but not limited to Columbia Gulf Gas Transmission Company ("Columbia Gulf"), Texas Eastern Transmission, L.P. ("Texas Eastern"), Copiah Storage Company ("Copiah"), Southern Natural Gas Company ("Sonat"), Transcontinental Gas Pipe Line Corporation ("Transco"), Tennessee Gas Pipeline Company ("Tennessee"), Florida Gas Transmission Company ("FGT"), Gulf South Pipeline Company, LP ("Gulf South"), and SGR's Southern Pines Energy Center ("SGR");

WHEREAS, Pipeline will file for all necessary regulatory authorization with the Commission and other applicable permitting authorities to construct, own, operate and maintain the Project facilities;

WHEREAS, Shipper desires to obtain firm transportation service from Pipeline as part of the Project for certain quantities of Shipper's natural gas;

WHEREAS, subject to the terms and conditions of this Precedent Agreement, Pipeline is willing to construct the Project and provide the firm transportation service Shipper desires;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, and intending to be legally bound, Pipeline and Shipper agree to the following:

1. Subject to the terms and conditions of this Precedent Agreement, Pipeline shall proceed with due diligence to obtain from all governmental and regulatory authorities having competent jurisdiction over the premises, including, but not limited to, the Commission, the authorizations and/or exemptions Pipeline determines are necessary: (i) for Pipeline to construct, own, operate, and maintain the Project facilities necessary to provide the firm transportation service for Shipper contemplated herein; and (ii) for Pipeline to perform its obligations as contemplated in this Precedent Agreement. Pipeline reserves the right to file and prosecute any and all applications for

such authorizations and/or exemptions, any supplements or amendments thereto, and, if necessary, any court review, in a manner it deems to be in its best interest. Provided that Pipeline does not seek a material change in the terms and conditions of service under the Service Agreement (defined below) which would have a material adverse effect on Shipper or a change in Pipeline's pro forma tariff (which was provided to Shipper on October 27, 2006) which would have a material adverse effect on Shipper, Shipper expressly agrees to support and cooperate with, and to not oppose, obstruct or otherwise interfere with in any manner whatsoever, the efforts of Pipeline to obtain all authorizations and/or exemptions and supplements and amendments thereto necessary for Pipeline to construct, own, operate, and maintain the Project facilities and to provide the firm transportation service contemplated in this Precedent Agreement and to perform its obligations as contemplated by this Precedent Agreement.

2. Subject to the terms and conditions of this Precedent Agreement, Shipper shall proceed with due diligence to obtain from the State of Florida's Public Service Commission the authorization to recover costs Shipper will incur pursuant to the Service Agreement ("Shipper's Authorization"). Shipper agrees to promptly notify Pipeline in writing after Shipper has received Shipper's Authorization, and whether such authorization is acceptable to Shipper.

3. (A) To effectuate the firm transportation service contemplated herein, Shipper and Pipeline are contemporaneously executing a firm transportation service agreement under Pipeline's Rate Schedule FTS ("First Service Agreement") which: (i) specifies a Maximum Daily Quantity ("MDQ") of 150,000 dekatherms per day ("Dth/d") (such MDQ shall be 100,000 Dth/d for the period from the Service

Commencement Date through May 31, 2009), exclusive of fuel requirements; (ii) specifies a primary term of [redacted]; (iii) subject to the provisions of Pipeline's FERC Gas Tariff, as amended from time to time ("Tariff") will provide Shipper with access to all receipt points available on Pipeline's system on a Priority Class One basis and primary points of delivery at FGT and Gulfstream; and (iv) shall, subject to Paragraph 3(E), be subject to an NGA Section 7(c) initial rate, plus fuel retainage, if any, and plus any other applicable charges and surcharges specified in Pipeline's Tariff for service under Rate Schedule FTS. Service pursuant to the First Service Agreement will commence on the date specified by Pipeline in its written notice to Shipper pursuant to Paragraph 4 of this Precedent Agreement.

(B) To effectuate the firm transportation service contemplated herein, Shipper and Pipeline are contemporaneously executing a firm transportation service agreement under Pipeline's Rate Schedule FTS ("Second Service Agreement") which: (i) specifies a MDQ of 50,000 Dth/d, exclusive of fuel requirements; (ii) specifies a primary term of [redacted]; (iii) subject to the provisions of Pipeline's Tariff will provide Shipper with access to all receipt points available on Pipeline's system on a Priority Class One basis and primary points of delivery at FGT and Gulfstream; and (iv) shall, subject to Paragraph 3(E), be subject to an NGA Section 7(c) initial rate, plus fuel retainage, if any, and plus any other applicable charges and surcharges specified in Pipeline's Tariff for service under Rate Schedule FTS. Service pursuant to the Second Service Agreement will commence on the date specified by Pipeline in its written notice to Shipper pursuant to Paragraph 4 of this Precedent Agreement.

(C) The Parties agree that the First Service Agreement and the Second Service Agreement are hereinafter collectively referred to as the ("Service Agreement") unless the specific language refers to such agreements individually.

(D) Pipeline agrees to include in its Tariff a provision which will permit Pipeline's shippers which execute firm transportation service agreements under Pipeline's Rate Schedule FTS on or before a date certain prior to December 31, 2006 to have specified in such shipper's service agreement Receipt Point MDQ's at (i) CEGT's Carthage to Perryville line; (ii) Gulf South's (East Texas to Mississippi Expansion) pipeline; (iii) Columbia Gulf's system near Perryville, LA, (subject to completion of construction of such interconnections) and (iv) the proposed Continental Connector pipeline sponsored by El Paso Corporation if such pipeline is constructed and interconnected with Pipeline within five (5) years after the Service Commencement Date, which at each such point equal such shipper's pro rata share (based on the MDQ of such shipper's service agreement) of Pipeline's initial system capacity of 1,000,000 Dths/d.

(E) Contemporaneously with Shipper's execution of this Precedent Agreement, Shipper must exercise its one-time election to pay for service under the Service Agreement either:

(i) Pipeline's maximum recourse rates, as such maximum recourse rates are amended or revised from time to time, and reflected in Pipeline's Tariff; or

(ii) A negotiated rate that is mutually agreed upon by Shipper and Pipeline. If Shipper and Pipeline agree upon a negotiated rate to be applicable to the

Service Agreement, (aa) Shipper agrees to pay such rate without regard to any action or determination by the FERC with respect to Pipeline's recourse rates; and (bb) Shipper and Pipeline shall enter into a separate Negotiated Rate Agreement and, subject to the terms and conditions of Pipeline's Tariff, the rates specified in such Negotiated Rate Agreement shall be the rates applicable to service under the Service Agreement for the term set forth in such Negotiated Rate Agreement.

4. (A) Upon satisfaction or waiver of all the conditions precedent set forth in Paragraph 7 of this Precedent Agreement, Pipeline shall notify Shipper that service under the First Service Agreement will commence on a date certain, which date will be the later of: (i) June 1, 2008; or (ii) the date that all of the conditions precedent set forth in Paragraph 7 of this Precedent Agreement are satisfied or waived (the "Service Commencement Date"). On and after the Service Commencement Date, Pipeline will provide firm transportation service for Shipper pursuant to the terms of the First Service Agreement and Shipper will pay Pipeline for all applicable charges associated with the First Service Agreement.

(B) Upon satisfaction or waiver of all the conditions precedent set forth in Paragraph 7 of this Precedent Agreement, Pipeline shall notify Shipper that service under the Second Service Agreement will commence on a date certain, which date will be the later of: (i) June 1, 2010; or (ii) the date that all of the conditions precedent set forth in Paragraph 7 of this Precedent Agreement are satisfied or waived (the "Second Service Commencement Date"). On and after the Second Service Commencement Date, Pipeline will provide firm transportation service for Shipper pursuant to the terms of the Second Service Agreement and Shipper will pay Pipeline for all applicable charges associated with the Second Service Agreement.

5. Pipeline will undertake the design of facilities and any other preparatory actions necessary for Pipeline to complete and file its certificate application(s) with the Commission. Prior to satisfaction of the conditions precedent set forth in Paragraph 7 of this Precedent Agreement, Pipeline shall have the right, but not the obligation, to proceed with the necessary design of facilities, acquisition of materials, supplies, properties, rights-of-way and any other necessary preparations to implement the firm transportation service under the Service Agreement as contemplated in this Precedent Agreement. Subsequent to executing this Precedent Agreement, Pipeline agrees to promptly provide monthly reports to Shipper, which will include a project schedule, describing the status of the permitting and construction of the Project (The Parties expressly acknowledge and agree that any such project schedule is provided for informational purposes only and is not intended to represent a change to the Project schedule on file with the FERC as part of Pipeline's certificate application for the Project to the extent there is any difference. In the event that Pipeline fails to timely provide any such monthly report, Shipper's sole and exclusive remedy for any such breach shall be an action for specific performance).

6. Upon satisfaction of all of the conditions precedent set forth in Paragraph 7 of this Precedent Agreement (except for the condition set forth in Paragraph 7(A)(v)), or waiver of the same by Pipeline or Shipper as applicable pursuant to the provisions of Paragraph 7, Pipeline shall proceed (subject to the continuing commitments of Shipper and other third-party shippers executing precedent agreements

and service agreements for service utilizing the firm transportation capacity to be made available by the Project, which service agreements collectively have an aggregate MDQ quantity of not less than 700,000 Dth/d of Rate Schedule FTS service) with due diligence to construct the authorized Project facilities and to implement the firm transportation service contemplated in this Precedent Agreement on or about June 1, 2008. [redacted] Notwithstanding Pipeline's due diligence, if Pipeline is unable to commence the firm transportation service for Shipper as contemplated herein by June 1, 2008, Pipeline will continue to proceed with due diligence to complete arrangements for such firm transportation service, and commence the firm transportation service for Shipper at the earliest practicable date thereafter. Provided that Pipeline continues to proceed with due diligence to complete construction of the

Project facilities and except as otherwise provided in Paragraph 9, Pipeline will neither be liable in damages nor will this Precedent Agreement or the Service Agreement be subject to cancellation if Pipeline is unable to complete the construction of such authorized Project facilities and commence the firm transportation service contemplated herein by June 1, 2008.

7. Commencement of service under the Service Agreement and Pipeline's and Shipper's rights and obligations under the Service Agreement are expressly made subject to satisfaction of the following conditions precedent:

(A) Conditions imposed by Pipeline (only Pipeline shall have the right to waive in writing the conditions precedent set forth in Paragraph 7(A)); Pipeline's:

(i) receipt and acceptance by [redacted] of all necessary certificates and authorizations from the Commission to construct, own, operate and maintain the Project facilities, as described in Pipeline's certificate application(s) as it may be amended from time to time, necessary to provide the firm transportation service contemplated herein and in the Service Agreement and approving Pipeline's Tariff as contemplated in this Precedent Agreement;

(ii) receipt by [redacted] of approval from its Management Committee, or similar governing body, in its sole discretion, of the terms and conditions set forth in this Precedent Agreement and the Negotiated Rate Agreement between Shipper and Pipeline entered into contemporaneously herewith;

(iii) receipt of all necessary governmental authorizations, approvals, and permits required to construct the Project facilities necessary to provide the firm transportation service contemplated herein and in the Service Agreement other than those specified in Paragraph 7(A)(i);

(iv) procurement of all necessary rights-of-way easements or permits in form and substance acceptable to Pipeline; and

(v) [redacted]

(B) Conditions imposed by Shipper (only Shipper shall have the right to waive in writing the conditions precedent set forth in Paragraph 7(B)):

(i) Shipper's receipt by [redacted] of approval from its Board of Directors or similar governing body to enter into this Precedent Agreement and the Service Agreement;

(ii) Shipper's receipt in a form acceptable to Shipper in its sole discretion by March 15, 2007 of approval from the Florida Public Service Commission for Shipper to recover through the fuel cost recovery clause costs Shipper will incur pursuant to the obligations set forth in this Precedent Agreement and the Service Agreement; provided, however, the Parties may on or before March 15, 2007, by written agreement extend for a mutually agreeable period up to ninety (90) days the deadline for satisfying or waiving this (and any other) condition(s) precedent;

(iii) Pipeline filing, by [redacted], its certificate application with the Commission for authorization to construct, own and operate the Project;

(iv) Pipeline commencing bona fide construction of its Project facilities on or before [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

(vii) [redacted]

[redacted]

Unless otherwise provided for herein, the Commission authorization(s) and approval(s) contemplated in Paragraph 1 of this Precedent Agreement must be issued in form and substance satisfactory to both Parties hereto. For the purposes of this Precedent Agreement, such Commission authorization(s) and approval(s) shall be deemed satisfactory if issued or granted in form and substance as requested, or if issued in a manner acceptable to Pipeline and such authorization(s) and approval(s), as issued, will not have a material adverse effect on Shipper, in Shipper's reasonably exercised judgement. Shipper shall notify Pipeline in writing not later than fifteen (15) days after Pipeline has provided notice to Shipper of the issuance of the Commission certificate(s), authorization(s) and approval(s), including any order issued as a preliminary determination on non-environmental issues, contemplated in Paragraph 1 of this Precedent Agreement if such certificate(s), authorization(s) and approval(s) are not satisfactory to Shipper. All other governmental authorizations, approvals, permits and/or exemptions must be issued in form and substance acceptable to Pipeline. All governmental approvals required by this Precedent Agreement must be duly granted by the Commission or other governmental agency or authority having jurisdiction, and must be final and no longer subject to rehearing or appeal; provided, however, Pipeline may waive the requirement that such authorization(s) and approval(s) be final and no longer subject to rehearing or appeal. Pipeline agrees to provide prompt written notice to Shipper as to whether the conditions precedent set forth in Paragraphs 7(A)(i), 7(A)(ii), 7(A)(iii), 7(A)(iv) and 7(B)(v) are satisfied, or not satisfied, by the earlier of the dates set forth in such conditions or [redacted]. Shipper agrees to provide prompt written notice to Pipeline as to whether the conditions precedent set forth in Paragraphs 7(B)(i) and 7(B)(ii) are satisfied, or not satisfied, by the dates set forth in such conditions.

8. [redacted]

9. (A) If any of the conditions precedent set forth in Paragraph 7 of this Precedent Agreement, excluding the condition precedent set forth in Paragraph 7 (A)(v), have not been fully satisfied, or waived by Pipeline or Shipper as applicable pursuant to the terms of Paragraph 7, by the earlier of the applicable dates specified therein or

[redacted], and this Precedent Agreement has not been terminated pursuant to Paragraph 9(B) of this Precedent Agreement, then either Pipeline or Shipper may thereafter terminate this Precedent Agreement and the related Service Agreement by giving [redacted] prior written notice of its intention to terminate to the non-terminating Party; provided, however, if the conditions precedent are satisfied, or waived by Pipeline or Shipper, as applicable, pursuant to the terms of Paragraph 7 of this Precedent Agreement, within such [redacted] day notice period, then termination will not be effective. [redacted]

(B) In addition to the provisions of Paragraph 9(A) of this Precedent Agreement, Pipeline may terminate this Precedent Agreement at any time if (i) [redacted]

(C) [redacted]

(D) If this Precedent Agreement is not terminated pursuant to Paragraph 9(A), 9(B) or 9(C) of this Precedent Agreement, then this Precedent Agreement will terminate by its express terms on the date of commencement of service under the Service Agreement, as provided for in Paragraph 4 of this Precedent Agreement, and thereafter Pipeline's and Shipper's rights and obligations related to the transportation transaction contemplated herein shall be determined pursuant to the terms and conditions of such Service Agreement and Pipeline's Tariff, as effective from time to time.

10. Shipper commits that it can and will satisfy one of the following creditworthiness requirements set forth in Paragraph 10(A) and that, upon request by Pipeline, Shipper shall promptly provide evidence to Pipeline of same:

(A) [redacted]

(B) [redacted]

[redacted]

(C) This Paragraph 10 shall survive the termination of the Precedent Agreement and shall remain in effect until the Service Agreement terminates in accordance with its terms.

11. Shipper acknowledges and agrees that: (A) Pipeline is a Delaware limited liability company; (B) Shipper shall have no recourse against any member of Pipeline, or any parent company, affiliate or subsidiary of any member of Pipeline, with respect to Pipeline's obligations under this Precedent Agreement or the Service Agreement and that its sole recourse shall be against the assets and revenues of Pipeline, irrespective of any failure to comply with applicable law or any provision of this Precedent Agreement or the Service Agreement; (C) no claims shall be made against any member of Pipeline, or any parent company, affiliate or subsidiary of any member of Pipeline, under or in connection with this Precedent Agreement or the Service Agreement; and (D) this representation is made expressly for the benefit of the members of Pipeline. This Paragraph 11 shall survive the termination of the Precedent Agreement and shall remain in effect until the Service Agreement terminates in accordance with its terms.

12. (A) Shipper represents and warrants that (i) it is duly organized and validly existing under the laws of the State of Florida and has all requisite legal power and authority to execute this Precedent Agreement and carry out the terms, conditions and provisions thereof; (ii) subject to satisfaction of the condition precedent set forth in

Paragraph 7(B)(i), this Precedent Agreement constitutes the valid, legal and binding obligation of Shipper, enforceable in accordance with the terms hereof; (iii) there are no actions, suits or proceedings pending or, to Shipper's knowledge, threatened against or affecting Shipper before any Court or administrative body that might materially adversely affect the ability of Shipper to meet and carry out its obligations hereunder; (iv) the execution and delivery by Shipper of this Precedent Agreement has been duly authorized by all requisite corporate action; and (v) that Shipper will comply with its obligations under Paragraph 10 of this Precedent Agreement.

(B) Pipeline represents and warrants that (i) it is duly organized and validly existing under the laws of the State of Delaware; (ii) subject to satisfaction of the condition precedent set forth in Paragraph 7(A)(ii), this Precedent Agreement constitutes the valid, legal and binding obligation of Pipeline, duly authorized by all limited liability company action necessary to execute this Precedent Agreement, enforceable in accordance with the terms hereof; and (iii) there are no actions, suits or proceedings pending or, to Pipeline's knowledge, threatened against or affecting Pipeline before any Court or administrative body that might materially adversely affect the ability of Pipeline to meet and carry out its obligations hereunder.

13. This Precedent Agreement may not be modified or amended unless the Parties execute written agreements to that effect.

14. Any company which succeeds by purchase, merger, or consolidation of title to the properties, substantially as an entirety, of Pipeline or Shipper, will be entitled to the rights and will be subject to the obligations of its predecessor in title under this

Precedent Agreement. Otherwise, unless as expressly set forth in this Precedent Agreement, neither Shipper nor Pipeline may assign any of its rights or obligations under this Precedent Agreement without the prior written consent of the other Party hereto. Notwithstanding the foregoing, Shipper agrees that Pipeline shall have the right, without the need to obtain Shipper's consent, to pledge its rights and obligations under this Precedent Agreement as collateral security for its indebtedness.

15. Except as expressly provided for in this Precedent Agreement, nothing herein expressed or implied is intended or shall be construed to confer upon or give to any person not a Party hereto any rights, remedies or obligations under or by reason of this Precedent Agreement.

16. Each and every provision of this Precedent Agreement shall be considered as prepared through the joint efforts of the Parties and shall not be construed against either Party as a result of the preparation or drafting thereof. It is expressly agreed that no consideration shall be given or presumption made on the basis of who drafted this Precedent Agreement or any specific provision hereof.

17. The recitals and representations appearing first above are hereby incorporated in and made a part of this Precedent Agreement.

18. This Precedent Agreement shall be governed by, construed, interpreted, and performed in accordance with the laws of the State of Texas, without recourse to any laws governing the conflict of laws.

19. Except as herein otherwise provided, any notice, request, demand, statement, or bill provided for in this Precedent Agreement, or any notice which either Party desires to give to the other, must be in writing and will be considered duly delivered when mailed by registered or certified mail to the other Party's Post Office address set forth below:

Pipeline: Southeast Supply Header, LLC
5400 Westheimer Court
Houston, TX 77056
Facsimile (713) 627-5658
Telephone (713) 627-4419
Attn: Vice President, Marketing

Shipper: Florida Power Corporation
d/b/a Progress Energy Florida, Inc.
410 S. Wilmington Street (PEB 9A)
Raleigh, NC 27601
Facsimile: (919) 546-2828
Telephone: (919) 546-4083
Attention: Vice President, Regulated Fuels
With a copy sent to the attention of Contract Administration via facsimile at (919) 546-2649

or at such other address as either Party designates by written notice. Routine communications, including monthly statements, will be considered duly delivered when mailed by either registered, certified, or ordinary mail.

IN WITNESS WHEREOF, the Parties hereto have caused this Precedent Agreement to be duly executed by their duly authorized officers as of the day and year first above written.

Southeast Supply Header, LLC	**Florida Power Corporation d/b/a/ Progress Energy Florida, Inc.**
By: ______________________	By: ______________________
Name: David A. Shammo	Name: Robert Bazemore
Title: Vice President	Title: Vice President

December 5, 2006

Mr. Robert Bazemore
Vice President
Florida Power Corporation
d/b/a/ Progress Energy Florida, Inc.
410 S. Wilmington, Street (PEB 9A)
Raleigh, NC 27601

Re: Negotiated Rates for Transportation Service
Under SESH Rate Schedule FTS Contract No. 840006

Dear Mr. Bazemore:

This Agreement ("Agreement") is made and entered into on the date first above written, by and between Southeast Supply Header, LLC ("Transporter") and Florida Power Corporation d/b/a/ Progress Energy Florida, Inc. ("Shipper"). Transporter and Shipper are parties to that certain firm transportation service agreement pursuant to Transporter's Rate Schedule FTS, which has a Maximum Daily Quantity of 150,000 Dth/d, designated as Transporter's Contract No. 840006 ("Service Agreement"). In accordance with the mutual covenants and agreements contained herein and in the Service Agreement, Transporter and Shipper desire to enter into this Agreement with respect to the rates for service under the Service Agreement for certain quantities of Shipper's natural gas to be transported on Transporter's system to delivery points at the interconnections between Transporter's system and Gulfstream Natural Gas System, L.L.C. ("Gulfstream") and Florida Gas Transmission Company ("FGT") (the Gulfstream delivery point and the FGT delivery point are sometimes referred to collectively herein as the ("Primary Delivery Points")).

When used in this Agreement, and unless otherwise defined herein, capitalized terms shall have the meanings set forth in that certain Precedent Agreement between Shipper and Transporter dated December 5, 2006 related to service under the Service Agreement ("Precedent Agreement"), the Service Agreement and/or in Transporter's FERC Gas Tariff (which includes without limitation the rate schedules, General Terms and Conditions ("GT&C"), and forms of service agreement), as amended from time to time ("Tariff").

1. (A) [redacted]:

(i) [redacted]

(ii) [redacted]

(iii) [redacted]

(iv) [redacted]

2. Applicability of Negotiated Rates: Notwithstanding anything to the contrary in this Agreement, the Negotiated Rates set forth above will apply only to deliveries under the Service Agreement at (i) the Primary Delivery Points and (ii) any other delivery point on a secondary basis. In the event that Shipper changes the primary delivery point under the Service Agreement to any location other than the Primary Delivery Points, then this Agreement shall terminate effective immediately and the rates applicable after this Agreement terminates shall be Transporter's applicable maximum Recourse Rates in effect pursuant to Transporter's Tariff unless and until otherwise agreed to in writing by Shipper and Transporter. In the event that Shipper releases its firm transportation rights under the Service Agreement, Shipper shall continue to be obligated to pay Transporter for the difference, if any, by which the Negotiated Rates (and all other applicable rates contemplated in Paragraph 1 above) exceed the release rate.

[redacted]

3. Effect of Negotiated Rates: Pursuant to the GT&C of Transporter's Tariff, the Negotiated Rates set forth herein shall collectively constitute a "negotiated rate." Shipper, by execution of this Agreement, agrees that the otherwise generally applicable maximum Recourse Rate(s) in effect pursuant to Transporter's Tariff shall not apply to or be available to Shipper for service under the Service Agreement during the term of this Agreement (except to the extent expressly stated in Paragraph 1 above or at any and all times when the Negotiated Rates are not otherwise applicable to service under the Service Agreement pursuant to the terms of this Agreement), notwithstanding any adjustments to such generally applicable maximum Recourse Rate(s) which may become effective during the term of this Agreement.

4. No Refund Obligations: If, at any time after the date service commences under the Service Agreement and thereafter during the term of this Agreement, Transporter is collecting its effective maximum Recourse Rates subject to refund under Section 4 of the Natural Gas Act as amended ("NGA") and the Negotiated Rates specified in Paragraph 1 of this Agreement are in effect for service provided to Shipper under the Service Agreement, Transporter shall have no refund obligation to Shipper even if the final maximum recourse rates are reduced to a level below the Negotiated Rates provided herein. Shipper's right to receive credits relating to Transporter's penalty revenue or other similar revenue, if any, applicable to transportation service on Transporter's system shall be governed by Transporter's Tariff and any applicable FERC orders and/or regulations.

5. Transporter's Tariff: Shipper acknowledges and agrees that all terms and conditions of Transporter's Tariff, as effective from time to time, including provisions for filing of changes in Transporter's Tariff, are applicable to the Service Agreement. In the event of a conflict between this Agreement and Transporter's Tariff, Transporter's Tariff shall control.

6. Term: This Agreement shall be binding on the Parties as of December 5, 2006. Subject to Paragraphs 2 and 7 herein, the Negotiated Rates set forth herein shall apply to service under the Service Agreement commencing on the Service Commencement Date under the Service Agreement and shall, subject to the terms and conditions of this Agreement, continue in effect through the Primary Term of the Service Agreement.

7. Regulatory Approval: Transporter shall make a filing with the FERC for approval to implement the Negotiated Rates set forth herein pursuant to the NGA, the FERC's regulations promulgated under the NGA, and the

FERC's Statement of Policy Alternatives to Traditional Cost of Service Ratemaking for Natural Gas Transporters and Regulation of Negotiated Transportation Service of Natural Gas Transporters issued January 31, 1996, in Docket Nos. RM95-6-000 and RM96-7-000. This Agreement and the Negotiated Rates set forth herein shall not apply to service under the Service Agreement unless and until the FERC approves such filing without condition and/or modification.

8. Governing Law: This Agreement shall be construed in accordance with and governed by the laws of the State of Texas, without recourse to the law governing the conflict of laws thereof.

9. Entire Agreement: This Agreement contains the entire agreement of the Parties with regard to the matters set forth herein and shall be binding upon and inure to the benefit of the successors of each Party.

10. Notices: All notices and communications regarding this Agreement shall be made in accordance with the notice provisions of the Service Agreement.

If the foregoing accurately sets forth your understanding of the matters covered herein, please so indicate by having a duly authorized representative sign in the space provided below and returning an original signed copy to the undersigned.

Sincerely,

Southeast Supply Header, LLC,
By Duke Energy Southeast Supply
Header, LLC, Its Operator

____
David A. Shammo
Vice President

ACCEPTED AND AGREED TO:
This 5th Day of December, 2006

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

By:________________________
Robert Bazemore
Vice President

December 5, 2006

Mr. Robert Bazemore
Vice President
Florida Power Corporation
d/b/a/ Progress Energy Florida, Inc.
410 S. Wilmington, Street (PEB 9A)
Raleigh, NC 27601

Re: Negotiated Rates for Transportation Service
Under SESH Rate Schedule FTS Contract No. 840007

Dear Mr. Bazemore:

This Agreement ("Agreement") is made and entered into on the date first above written, by and between Southeast Supply Header, LLC ("Transporter") and Florida Power Corporation d/b/a/ Progress Energy Florida, Inc. ("Shipper"). Transporter and Shipper are parties to that certain firm transportation service agreement pursuant to Transporter's Rate Schedule FTS, which has a Maximum Daily Quantity of 50,000 Dth/d, designated as Transporter's Contract No. 840007 ("Service Agreement"). In accordance with the mutual covenants and agreements contained herein and in the Service Agreement, Transporter and Shipper desire to enter into this Agreement with respect to the rates for service under the Service Agreement for certain quantities of Shipper's natural gas to be transported on Transporter's system to delivery points at the interconnections between Transporter's system and Gulfstream Natural Gas System, L.L.C. ("Gulfstream") and Florida Gas Transmission Company ("FGT") (the Gulfstream delivery point and the FGT delivery point are sometimes referred to collectively herein as the ("Primary Delivery Points")).

When used in this Agreement, and unless otherwise defined herein, capitalized terms shall have the meanings set forth in that certain Precedent Agreement between Shipper and Transporter dated December 5, 2006 related to service under the Service Agreement ("Precedent Agreement"), the Service Agreement and/or in Transporter's FERC Gas Tariff (which includes without limitation the rate schedules, General Terms and Conditions ("GT&C"), and forms of service agreement), as amended from time to time ("Tariff").

1. (A) [redacted]:

(i) [redacted]

(ii) [redacted]

(iii) [redacted];

(iv) [redacted]

2. Applicability of Negotiated Rates: Notwithstanding anything to the contrary in this Agreement, the Negotiated Rates set forth above will apply only to deliveries under the Service Agreement at (i) the Primary Delivery Points and (ii) any other delivery point on a secondary basis. In the event that Shipper changes the primary delivery point under the Service Agreement to any location other than the Primary Delivery Points, then this Agreement shall terminate effective immediately and the rates applicable after this Agreement terminates shall be Transporter's applicable maximum Recourse Rates in effect pursuant to Transporter's Tariff unless and until otherwise agreed to in writing by Shipper and Transporter. In the event that Shipper releases its firm transportation rights under the Service Agreement, Shipper shall continue to be obligated to pay Transporter for the difference, if any, by which the Negotiated Rates (and all other applicable rates contemplated in Paragraph 1 above) exceed the release rate.

[redacted]

3. Effect of Negotiated Rates: Pursuant to the GT&C of Transporter's Tariff, the Negotiated Rates set forth herein shall collectively constitute a "negotiated rate." Shipper, by execution of this Agreement, agrees that the otherwise generally applicable maximum Recourse Rate(s) in effect pursuant to Transporter's Tariff shall not apply to or be available to Shipper for service under the Service Agreement during the term of this Agreement (except to the extent expressly stated in Paragraph 1 above or at any and all times when the Negotiated Rates are not otherwise applicable to service under the Service Agreement pursuant to the terms of this Agreement), notwithstanding any adjustments to such generally applicable maximum Recourse Rate(s) which may become effective during the term of this Agreement.

4. No Refund Obligations: If, at any time after the date service commences under the Service Agreement and thereafter during the term of this Agreement, Transporter is collecting its effective maximum Recourse Rates subject to refund under Section 4 of the Natural Gas Act as amended ("NGA") and the Negotiated Rates specified in Paragraph 1 of this Agreement are in effect for service provided to Shipper under the Service Agreement, Transporter shall have no refund obligation to Shipper even if the final maximum recourse rates are reduced to a level below the Negotiated Rates provided herein. Shipper's right to receive credits relating to Transporter's penalty revenue or other similar revenue, if any, applicable to transportation service on Transporter's system shall be governed by Transporter's Tariff and any applicable FERC orders and/or regulations.

5. Transporter's Tariff: Shipper acknowledges and agrees that all terms and conditions of Transporter's Tariff, as effective from time to time, including provisions for filing of changes in Transporter's Tariff, are applicable to the Service Agreement. In the event of a conflict between this Agreement and Transporter's Tariff, Transporter's Tariff shall control.

6. Term: This Agreement shall be binding on the Parties as of December 5, 2006. Subject to Paragraphs 2 and 7 herein, the Negotiated Rates set forth herein shall apply to service under the Service Agreement commencing on the Second Service Commencement Date under the Service Agreement and shall, subject to the terms and conditions of this Agreement, continue in effect through the Primary Term of the Service Agreement.

7. Regulatory Approval: Transporter shall make a filing with the FERC for approval to implement the Negotiated Rates set forth herein pursuant to

the NGA, the FERC's regulations promulgated under the NGA, and the FERC's Statement of Policy Alternatives to Traditional Cost of Service Ratemaking for Natural Gas Transporters and Regulation of Negotiated Transportation Service of Natural Gas Transporters issued January 31, 1996, in Docket Nos. RM95-6-000 and RM96-7-000. This Agreement and the Negotiated Rates set forth herein shall not apply to service under the Service Agreement unless and until the FERC approves such filing without condition and/or modification.

8. Governing Law: This Agreement shall be construed in accordance with and governed by the laws of the State of Texas, without recourse to the law governing the conflict of laws thereof.

9. Entire Agreement: This Agreement contains the entire agreement of the Parties with regard to the matters set forth herein and shall be binding upon and inure to the benefit of the successors of each Party.

10. Notices: All notices and communications regarding this Agreement shall be made in accordance with the notice provisions of the Service Agreement.

If the foregoing accurately sets forth your understanding of the matters covered herein, please so indicate by having a duly authorized representative sign in the space provided below and returning an original signed copy to the undersigned.

Sincerely,

Southeast Supply Header, LLC,
By Duke Energy Southeast Supply
Header, LLC, Its Operator

____
David A. Shammo
Vice President

ACCEPTED AND AGREED TO:
This 5th Day of December, 2006

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

By:__________________________
Robert Bazemore
Vice President

December 5, 2006

Mr. Robert Bazemore
Vice President
Florida Power Corporation
d/b/a/ Progress Energy Florida, Inc.
410 S. Wilmington, Street (PEB 9A)
Raleigh, NC 27601

Re: Negotiated Rates for Transportation Service
Under SESH Rate Schedule FTS Contract No. 840007

Dear Mr. Bazemore:

This Agreement ("Agreement") is made and entered into on the date first above written, by and between Southeast Supply Header, LLC ("Transporter") and Florida Power Corporation d/b/a/ Progress Energy Florida, Inc. ("Shipper"). Transporter and Shipper are parties to that certain firm transportation service agreement pursuant to Transporter's Rate Schedule FTS, which has a Maximum Daily Quantity of 50,000 Dth/d, designated as Transporter's Contract No. 840007 ("Service Agreement"). In accordance with the mutual covenants and agreements contained herein and in the Service Agreement, Transporter and Shipper desire to enter into this Agreement with respect to the rates for service under the Service Agreement for certain quantities of Shipper's natural gas to be transported on Transporter's system to delivery points at the interconnections between Transporter's system and Gulfstream Natural Gas System, L.L.C. ("Gulfstream") and Florida Gas Transmission Company ("FGT") (the Gulfstream delivery point and the FGT delivery point are sometimes referred to collectively herein as the ("Primary Delivery Points")).

When used in this Agreement, and unless otherwise defined herein, capitalized terms shall have the meanings set forth in that certain Precedent Agreement between Shipper and Transporter dated December 5, 2006 related to service under the Service Agreement ("Precedent Agreement"), the Service Agreement and/or in Transporter's FERC Gas Tariff (which includes without limitation the rate schedules, General Terms and Conditions ("GT&C"), and forms of service agreement), as amended from time to time ("Tariff").

1. (A) [redacted]:

(i) [redacted]

(ii) [redacted]

(iii) [redacted];

(iv) [redacted]

2. Applicability of Negotiated Rates: Notwithstanding anything to the contrary in this Agreement, the Negotiated Rates set forth above will apply only to deliveries under the Service Agreement at (i) the Primary Delivery Points and (ii) any other delivery point on a secondary basis. In the event that Shipper changes the primary delivery point under the Service Agreement to any location other than the Primary Delivery Points, then this Agreement shall terminate effective immediately and the rates applicable after this Agreement terminates shall be Transporter's applicable maximum Recourse Rates in effect pursuant to Transporter's Tariff unless and until otherwise agreed to in writing by Shipper and Transporter. In the event that Shipper releases its firm transportation rights under the Service Agreement, Shipper shall continue to be obligated to pay Transporter for the difference, if any, by which the Negotiated Rates (and all other applicable rates contemplated in Paragraph 1 above) exceed the release rate.

[redacted]

3. Effect of Negotiated Rates: Pursuant to the GT&C of Transporter's Tariff, the Negotiated Rates set forth herein shall collectively constitute a "negotiated rate." Shipper, by execution of this Agreement, agrees that the otherwise generally applicable maximum Recourse Rate(s) in effect pursuant to Transporter's Tariff shall not apply to or be available to Shipper for service under the Service Agreement during the term of this Agreement (except to the extent expressly stated in Paragraph 1 above or at any and all times when the Negotiated Rates are not otherwise applicable to service under the Service Agreement pursuant to the terms of this Agreement), notwithstanding any adjustments to such generally applicable maximum Recourse Rate(s) which may become effective during the term of this Agreement.

4. No Refund Obligations: If, at any time after the date service commences under the Service Agreement and thereafter during the term of this Agreement, Transporter is collecting its effective maximum Recourse Rates subject to refund under Section 4 of the Natural Gas Act as amended ("NGA") and the Negotiated Rates specified in Paragraph 1 of this Agreement are in effect for service provided to Shipper under the Service Agreement, Transporter shall have no refund obligation to Shipper even if the final maximum recourse rates are reduced to a level below the Negotiated Rates provided herein. Shipper's right to receive credits relating to Transporter's penalty revenue or other similar revenue, if any, applicable to transportation service on Transporter's system shall be governed by Transporter's Tariff and any applicable FERC orders and/or regulations.

5. Transporter's Tariff: Shipper acknowledges and agrees that all terms and conditions of Transporter's Tariff, as effective from time to time, including provisions for filing of changes in Transporter's Tariff, are applicable to the Service Agreement. In the event of a conflict between this Agreement and Transporter's Tariff, Transporter's Tariff shall control.

6. Term: This Agreement shall be binding on the Parties as of December 5, 2006. Subject to Paragraphs 2 and 7 herein, the Negotiated Rates set forth herein shall apply to service under the Service Agreement commencing on the Second Service Commencement Date under the Service Agreement and shall, subject to the terms and conditions of this Agreement, continue in effect through the Primary Term of the Service Agreement.

7. Regulatory Approval: Transporter shall make a filing with the FERC for approval to implement the Negotiated Rates set forth herein pursuant to

the NGA, the FERC's regulations promulgated under the NGA, and the FERC's Statement of Policy Alternatives to Traditional Cost of Service Ratemaking for Natural Gas Transporters and Regulation of Negotiated Transportation Service of Natural Gas Transporters issued January 31, 1996, in Docket Nos. RM95-6-000 and RM96-7-000. This Agreement and the Negotiated Rates set forth herein shall not apply to service under the Service Agreement unless and until the FERC approves such filing without condition and/or modification.

8. Governing Law: This Agreement shall be construed in accordance with and governed by the laws of the State of Texas, without recourse to the law governing the conflict of laws thereof.

9. Entire Agreement: This Agreement contains the entire agreement of the Parties with regard to the matters set forth herein and shall be binding upon and inure to the benefit of the successors of each Party.

10. Notices: All notices and communications regarding this Agreement shall be made in accordance with the notice provisions of the Service Agreement.

If the foregoing accurately sets forth your understanding of the matters covered herein, please so indicate by having a duly authorized representative sign in the space provided below and returning an original signed copy to the undersigned.

Sincerely,

Southeast Supply Header, LLC,
By Duke Energy Southeast Supply
Header, LLC, Its Operator

____

David A. Shammo
Vice President

ACCEPTED AND AGREED TO:
This 5th Day of December, 2006

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

By:__________________________

Robert Bazemore
Vice President

SERVICE AGREEMENT
(APPLICABLE TO RATE SCHEDULE FTS)

Date: (1)December 5, 2006, Contract No. (1A)840006

SERVICE AGREEMENT

This AGREEMENT is entered into by and between Southeast Supply Header, LLC, ("Transporter") and (2)Florida Power Corporation, d/b/a/ Progress Energy Florida, Inc. ("Shipper").

WHEREAS, in connection with the firm transportation service contemplated herein, Shipper and Transporter are contemporaneously herewith executing a precedent agreement dated December 5, 2006, which sets forth certain conditions precedent to Shipper's and Transporter's rights and obligations under this Agreement and which is referred to herein as the ("Precedent Agreement")(capitalized terms used herein that are not defined herein or in Transporter's Tariff shall have the meaning set forth in the Precedent Agreement);

In consideration of the premises and of the mutual covenants herein contained, the parties do agree as follows:

1. Transporter agrees to provide and Shipper agrees to take and pay for service under this Agreement pursuant to Transporter's Rate Schedule FTS and the General Terms and Conditions of Transporter's Tariff, which are incorporated herein by reference and made a part hereof.

2. The Maximum Daily Quantity (MDQ) for service under this Agreement and any right to increase or decrease the MDQ during the term of this Agreement are listed on Exhibit C attached hereto. The Point(s) of Receipt are listed on Exhibit A attached hereto and the Point(s) of Delivery are listed on Exhibit B attached hereto. Exhibit(s) A, B and C are incorporated herein by reference and made a part hereof.

3. This Agreement shall be binding on the Parties on (5A) December 5, 2006. Service under this Agreement shall commence on the Service Commencement Date as defined in Paragraph 4 of the Precedent Agreement and shall continue until (5B)the end of the Gas Day on the [redacted] of the Service Commencement Date ("Primary Term") and from (5C)year to (5D)year thereafter until terminated by Transporter or Shipper upon at least (5E)two (2) years prior written notice. Any portions of this Service Agreement necessary to correct or cash-out imbalances under this Service Agreement as required by the General Terms and Conditions of Transporter's FERC Gas Tariff shall survive the other parts of this Service Agreement until such time as such balancing has been accomplished. In the event that the Precedent Agreement is terminated, other than by commencement of service under this Agreement, then this Agreement shall terminate effective as of the date the Precedent Agreement is terminated and thereafter this Agreement shall be null and void.

Notwithstanding any other provision in this Agreement, after service has commenced hereunder if as a result of an event of Force Majeure Transporter is not able to deliver Shipper's scheduled quantities for a period of one hundred eighty five (185) consecutive days during any three hundred sixty five (365) consecutive day period and at any minimum delivery pressure specified on Exhibit B of this Agreement, then Shipper shall have the right to terminate this Agreement or reduce the MDQ (with an associated reduction in the Delivery

Point MDQs specified on Exhibit B of this Agreement) of this Agreement upon sixty (60) days prior written notice.

4. Maximum rates, charges, and fees shall be applicable to service pursuant to this Agreement except during the specified term of a discounted or negotiated rate to which Shipper and Transporter have agreed. Provisions governing such discounted rate shall be as specified in the Discount Confirmation to this Service Agreement. Provisions governing such negotiated rate and term shall be as specified on an appropriate rate sheet filed, with the consent of Shipper, as part of Transporter's Tariff. It is further agreed that Transporter may seek authorization from the Commission and/or other appropriate body at any time and from time to time to change any rates, charges or other provisions in the applicable Rate Schedule and General Terms and Conditions of Transporter's Tariff, and Transporter shall have the right to place such changes in effect in accordance with the Natural Gas Act. Nothing contained herein shall be construed to deny Shipper any rights it may have under the Natural Gas Act, including the right to participate fully in rate or other proceedings by intervention or otherwise to contest increased rates in whole or in part.

5. Unless otherwise required in the Tariff, all notices shall be in writing and mailed to the applicable address below or transmitted via facsimile. Shipper or Transporter may change the addresses or other information below by written notice to the other without the necessity of amending this Agreement:

Transporter: Southeast Supply Header, LLC
5400 Westheimer Court
Houston, Texas 77056
Facsimile: (713) 627-5658
Telephone: (713) 627-4419
Attention: Vice President, Marketing

Shipper:(6) Florida Power Corporation
d/b/a/ Progress Energy Florida, Inc.
410 S. Wilmington Street (PEB 9A)
Raleigh, NC 27601
Facsimile:
Telephone:
Attention:

6. The interpretation and performance of this Agreement shall be in accordance with the laws of the State of Texas, excluding conflicts of law principles that would require the application of the laws of a different jurisdiction.

7. This Agreement supersedes and cancels, as of the effective date of this Agreement, the contract(s) between the parties hereto as described below, if applicable,

(7) [None or an appropriate description]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their respective Officers and/or Representatives thereunto duly authorized to be effective as of the date stated above.

SHIPPER: (2) Florida Power Corporation
d/b/a/ Progress Energy Florida, Inc.

By: ____________________________

Robert Bazemore

Title: Vice President

SOUTHEAST SUPPLY HEADER, LLC
By Duke Energy Southeast Supply Header, LLC
Its Operator

By: ____________________________

David A. Shammo

Title: Vice President

SERVICE AGREEMENT
(APPLICABLE TO RATE SCHEDULE FTS)

EXHIBIT A

Point(s) of Receipt

Dated: (8) December 5, 2006

To the service agreement under Rate Schedule FTS between Southeast Supply Header, LLC (Transporter) and (2) Florida Power Corporation d/b/a/ Progress Energy Florida, Inc. (Shipper) concerning Point(s) of Receipt.

The receipt points available to Shipper pursuant to Section 4.1 of Rate Schedule FTS includes the following, and any additional receipt points constructed after the effective date of this Agreement:

Receipt Point	Receipt Point MDQ[1]	Maximum Receipt Pressure
(10) CenterPoint Energy Gas Transmission Carthage to Perryville Pipeline	150,000 Dth/d	
Gulf South Pipeline (East Texas to Mississippi Expansion)	150,000 Dth/d	
Columbia Gulf	150,000 Dth/d	

Signed for Identification

Transporter: ______________________________

Shipper: ________________________________

Supercedes Exhibit A Dated (9) N/A_______________

[1] During the period commencing on the Service Commencement Date and continuing through May 31, 2009, the Receipt Point MDQs at the points listed below shall be 100,000 Dth/d.

SERVICE AGREEMENT
(APPLICABLE TO RATE SCHEDULE FTS)

Exhibit B

Point(s) of Delivery

Dated: (11) December 5, 2006

To the service agreement under Rate Schedule FTS between Southeast Supply Header, LLC (Transporter) and (2) Florida Power Corporation d/b/a Progress Energy Florida, Inc. (Shipper) concerning Point(s) of Delivery.

	Primary Point of Delivery	Delivery Point MDQ[2]	Minimum Delivery Pressure
(13)	Gulfstream Delivery Point	150,000 Dth	975 psig
	FGT Delivery Point	150,000 Dth	975 psig

Signed for Identification

Transporter: ____________________________

Shipper: ____________________________

Supersedes Exhibit B Dated (12)_N/A______________________

[2] During the period commencing on the Service Commencement Date and continuing through May 31, 2009, the Delivery Point MDQs at the points listed below shall be 100,000 Dth/d.

SERVICE AGREEMENT
(APPLICABLE TO RATE SCHEDULE FTS)

Exhibit C

Transportation Quantities

Dated: (14)December 5, 2006

To the service agreement under Rate Schedule FTS between Southeast Supply Header, LLC (Transporter) and (2) Florida Power Corporation d/b/a Progress Energy Florida, Inc. (Shipper) concerning transportation quantities.

MAXIMUM DAILY QUANTITY (MDQ): (3)150,000 Dth[3]

Signed for Identification

Transporter: ______________________________

Shipper: ______________________________

Supersedes Exhibit C Dated (15)_N/A_________________________

[3] During the period commencing on the Service Commencement Date and continuing through May 31, 2009, the MDQ of this Agreement shall be 100,000 Dth/d.

SERVICE AGREEMENT
(APPLICABLE TO RATE SCHEDULE FTS)

Date:(1)December 5, 2006, Contract No.(1A)840007

SERVICE AGREEMENT

This AGREEMENT is entered into by and between Southeast Supply Header, LLC,("Transporter") and (2)Florida Power Corporation, d/b/a/ Progress Energy Florida, Inc. ("Shipper").

WHEREAS, in connection with the firm transportation service contemplated herein, Shipper and Transporter are contemporaneously herewith executing a precedent agreement dated December 5, 2006, which sets forth certain conditions precedent to Shipper's and Transporter's rights and obligations under this Agreement and which is referred to herein as the ("Precedent Agreement")(capitalized terms used herein that are not defined herein or in Transporter's Tariff shall have the meaning set forth in the Precedent Agreement);

In consideration of the premises and of the mutual covenants herein contained, the parties do agree as follows:

1. Transporter agrees to provide and Shipper agrees to take and pay for service under this Agreement pursuant to Transporter's Rate Schedule FTS and the General Terms and Conditions of Transporter's Tariff, which are incorporated herein by reference and made a part hereof.

2. The Maximum Daily Quantity (MDQ) for service under this Agreement and any right to increase or decrease the MDQ during the term of this Agreement are listed on Exhibit C attached hereto. The Point(s) of Receipt are listed on Exhibit A attached hereto and the Point(s) of Delivery are listed on Exhibit B attached hereto. Exhibit(s) A, B and C are incorporated herein by reference and made a part hereof.

3. This Agreement shall be binding on the Parties on (5A) December 5, 2006. Service under this Agreement shall commence on the Second Service Commencement Date as defined in Paragraph 4 of the Precedent Agreement and shall continue until (5B) the end of the Gas Day on the [redacted] anniversary of the Second Service Commencement Date ("Primary Term") and from (5C)year to (5D)year thereafter until terminated by Transporter or Shipper upon at least (5E)two (2) years prior written notice. Any portions of this Service Agreement necessary to correct or cash-out imbalances under this Service Agreement as required by the General Terms and Conditions of Transporter's FERC Gas Tariff shall survive the other parts of this Service Agreement until such time as such balancing has been accomplished. In the event that the Precedent Agreement is terminated, other than by commencement of service under this Agreement, then this Agreement shall terminate effective as of the date the Precedent Agreement is terminated and thereafter this Agreement shall be null and void.

Notwithstanding any other provision in this Agreement, after service has commenced hereunder if as a result of an event of Force Majeure Transporter is not able to deliver Shipper's scheduled quantities for a period of one hundred eighty five (185) consecutive days during any three hundred sixty five (365) consecutive day period and at any minimum delivery pressure specified on Exhibit B of this Agreement, then Shipper shall have the right to terminate this Agreement or reduce the MDQ (with an associated reduction in the Delivery

Point MDQs specified on Exhibit B of this Agreement) of this Agreement upon sixty (60) days prior written notice.

4. Maximum rates, charges, and fees shall be applicable to service pursuant to this Agreement except during the specified term of a discounted or negotiated rate to which Shipper and Transporter have agreed. Provisions governing such discounted rate shall be as specified in the Discount Confirmation to this Service Agreement. Provisions governing such negotiated rate and term shall be as specified on an appropriate rate sheet filed, with the consent of Shipper, as part of Transporter's Tariff. It is further agreed that Transporter may seek authorization from the Commission and/or other appropriate body at any time and from time to time to change any rates, charges or other provisions in the applicable Rate Schedule and General Terms and Conditions of Transporter's Tariff, and Transporter shall have the right to place such changes in effect in accordance with the Natural Gas Act. Nothing contained herein shall be construed to deny Shipper any rights it may have under the Natural Gas Act, including the right to participate fully in rate or other proceedings by intervention or otherwise to contest increased rates in whole or in part.

5. Unless otherwise required in the Tariff, all notices shall be in writing and mailed to the applicable address below or transmitted via facsimile. Shipper or Transporter may change the addresses or other information below by written notice to the other without the necessity of amending this Agreement:

Transporter: Southeast Supply Header, LLC
5400 Westheimer Court
Houston, Texas 77056
Facsimile: (713) 627-5658
Telephone: (713) 627-4419
Attention: Vice President, Marketing

Shipper:(6) Florida Power Corporation
d/b/a/ Progress Energy Florida, Inc.
410 S. Wilmington Street (PEB 9A)
Raleigh, NC 27601
Facsimile:
Telephone:
Attention:

6. The interpretation and performance of this Agreement shall be in accordance with the laws of the State of Texas, excluding conflicts of law principles that would require the application of the laws of a different jurisdiction.

7. This Agreement supersedes and cancels, as of the effective date of this Agreement, the contract(s) between the parties hereto as described below, if applicable,

(7) [None or an appropriate description]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their respective Officers and/or Representatives thereunto duly authorized to be effective as of the date stated above.

SHIPPER: (2) Florida Power Corporation
d/b/a/ Progress Energy Florida, Inc.

By: ____________________________

Robert Bazemore

Title: Vice President

SOUTHEAST SUPPLY HEADER, LLC
By Duke Energy Southeast Supply Header, LLC
Its Operator

By: ____________________________

David A. Shammo

Title: Vice President

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EXHIBIT A

Point(s) of Receipt

Dated: (8) December 5, 2006

To the service agreement under Rate Schedule FTS between Southeast Supply Header, LLC (Transporter) and (2) Florida Power Corporation d/b/a/ Progress Energy Florida, Inc. (Shipper) concerning Point(s) of Receipt.

The receipt points available to Shipper pursuant to Section 4.1 of Rate Schedule FTS includes the following, and any additional receipt points constructed after the effective date of this Agreement:

Receipt Point	Receipt Point MDQ	Maximum Receipt Pressure
(10) CenterPoint Energy Gas Transmission Carthage to Perryville Pipeline	50,000 Dth/d	
Gulf South Pipeline (East Texas to Mississippi Expansion)	50,000 Dth/d	
Columbia Gulf	50,000 Dth/d	

Signed for Identification

Transporter: ______________________________

Shipper: ______________________________

Supercedes Exhibit A Dated (9) N/A_______________

fpc fts (50) v2

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Exhibit B

Point(s) of Delivery

Dated: (11) December 5, 2006

To the service agreement under Rate Schedule FTS between Southeast Supply Header, LLC (Transporter) and (2)Florida Power Corporation d/b/a Progress Energy Florida, Inc. (Shipper) concerning Point(s) of Delivery.

	Primary Point of Delivery	Delivery Point MDQ	Minimum Delivery Pressure
(13)	Gulfstream Delivery Point	50,000 Dth	975 psig
	FGT Delivery Point	50,000 Dth	975 psig

Signed for Identification

Transporter: ______________________________

Shipper: ______________________________

Supersedes Exhibit B Dated (12)_N/A______________

fpc fts (50) v2

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Exhibit C

Transportation Quantities

Dated: (14)December 5, 2006

To the service agreement under Rate Schedule FTS between Southeast Supply Header, LLC (Transporter) and (2) Florida Power Corporation d/b/a Progress Energy Florida, Inc. (Shipper) concerning transportation quantities.

MAXIMUM DAILY QUANTITY (MDQ): (3)50,000 Dth

Signed for Identification

Transporter: ______________________________

Shipper: ______________________________

Supersedes Exhibit C Dated (15)_N/A_________________________

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Progress Energy Florida, Inc.'s	)	
Petition for Approval of Southeast Supply	)	
Header long-term fuel transportation	)	Docket No. ____________
contracts.	)	
		Filed: December 12, 2006

Exhibit KF-2 to Prefiled
Direct Testimony of Kent Fonvielle

Estimated Total Annual Pipeline Costs

Exhibit KF-2
Estimated Total Annual Pipeline Costs

Period(1)	Capacity (Dth/day)	Reservation Rate ($/Dth-day)	Fixed Costs	Variable Costs(2)	Total Costs
[redacted]					

(1) The projected in-service date of the Southeast Supply Header pipeline is June 1, 2008.
(2) Estimated variable costs based on 100% utilization of pipeline capacity.