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February 13, 2007

Robert Caldwell
Vice President, Regulated Commercial Operations
Progress Energy Carolinas
410 South Wilmington, St.
Raleigh, NC 27602

Re: Progress Energy Carolinas, Inc. Interface Pricing Arrangements

Dear Mr. Caldwell:

In order to establish an appropriate locational pricing signal for energy transactions between Progress Energy Carolinas, Inc. ("PEC"), and PJM Interconnection, LLC ("PJM"), PJM will institute the protocols set forth below for purchases by PEC from the PJM area and for sales into the PJM area by PEC. The purpose of these protocols is to allow PEC to make sales and purchases at a single interface pricing point pursuant to conditions acceptable to both PJM and PEC. The protocols set forth below will begin at 12:00 a.m., February 1, 2007, unless otherwise agreed to by the parties.

1. PJM will establish a PECGEN LMP point comprised of the average of the individual PEC generator bus LMP nodes. At all times that the protocols set forth herein are in effect, except as provided in Paragraphs 4 through 6 below, the PECGEN LMP will be the price for energy sales into the PJM area made by PEC and energy purchases from the PJM area made by PEC.
2. PEC will provide the following data to PJM Operations in the form of real-time telemetering on a one-minute scan time, or shorter scan time when commercially practicable:
 - a. PEC* aggregate system load
 - b. PEC* aggregate system generation
 - c. PEC* aggregate energy sales
 1. to others
 2. energy calls on PEC
 3. to PJM
 - d. PEC* aggregate energy purchases
 1. from others
 2. energy puts to PEC
 3. from PJM

e. PEC* miniACE (control error) signal

*PEC includes only gen, load, sales, miniACE of PEC and does not include the load, gen, sales, miniACE of the munis, coops, power authorities, marketing entities, etc. within the PEC control area or for which PEC provides load balancing service.

3. PJM will perform the following two calculations in its Energy Management System (EMS):

$$\text{PEC Sales to PJM} = \text{Gen} + \text{Purchases} - \text{Load} - \text{non-PJM energy sales} - \text{miniACE**}$$

$$\text{PEC Sales to PJM} = b + (d1 + d2) - a - c1 - c2 - e$$

$$\text{PEC Purchases from PJM} = \text{Load} + \text{Sales} - \text{Gen} - \text{non-PJM energy purchases} + \text{miniACE**}$$

$$\text{PEC Purchases from PJM} = a + (c1 + c2) - b - (d1 + d2) + e$$

**miniACE sign convention is (+) overgeneration, (-) undergeneration.

4. During any hour in which PEC (or any affiliate at such times as and to the extent it is making energy purchases or sales in the PEC control area) makes any purchases outside of the PEC control area (other than SEPA pass-through energy deliveries, energy puts to PEC, delivery of energy via purchases by PEC under long term contracts with AEP {Rockport} and Calpine {Broad River Energy Center}, or delivery of PEC-owned external resources) at the same time that PEC is making an energy sale into PJM or purchases energy from PJM for delivery into a control area for which such deliveries would be priced at the SOUTHEXP Interface, PEC will not receive the PECGEN LMP for its exports to or wheels through PJM but rather will receive the PJM SOUTHIMP LMP for all such PEC exports to or wheels through PJM during the corresponding time period. Under extraordinary circumstances, including but not limited to unexpected forced outages of PEC generating resources, PEC will be permitted to import energy to maintain system balance while exporting energy to PJM. For short time periods not longer than sixty (60) minutes following such system disturbances, PJM will net the PEC imported amount against the PEC exported amount to PJM such that the net export amount to PJM will retain the PECGEN price while the amount of the export corresponding to the imported amount will receive the SOUTHIMP price. To the extent that the automated PJM settlement process automatically moves all the PEC export MW to PJM to the SOUTHIMP price in such situations, PEC will be required to notify PJM of the extraordinary condition so that netting process described above may be effectuated.
5. PEC shall refrain from wheeling energy through PJM to any control area south or southwest of the Tennessee Valley Authority or Midwest Independent System Operator control areas, unless PEC and PJM agree on the pricing for a specific transaction. PEC may wheel power to control areas located north or northeast of

PJM as specified in the PJM Tariff and associated market rules and, subject to the remaining conditions in this agreement, shall receive the PECGEN LMP as the source LMP point for such transactions.

6. In the PJM Settlement System, in order for PEC to receive the PECGEN price for its sales into the PJM area, the hourly average value for PEC Sales to PJM must equal the amount scheduled in the PJM Enhanced Energy Scheduler (EES) within a tolerance. Ten percent (10%) of each scheduled quantity will be used as an initial tolerance, provided that should operational conditions warrant, this value may be reasonably modified following mutual consent of the parties. In addition, PEC external purchases excluding energy puts to PEC must equal zero ($d1=0$), understanding that short-term deviations in PEC purchase quantities can occur, such that PEC shall have the right to verify after-the-fact that any small $d1$ values were not the result of importing from other areas while exporting to PJM. To the extent that either of the conditions set forth in this paragraph is not met, PEC will receive the PJM SOUTHIMP LMP for the applicable hours.
7. In order for PEC to be eligible to pay the PECGEN price for PEC Purchases from PJM, the hourly average value for PEC Purchases from PJM must equal the amount scheduled in EES within a tolerance. Ten percent (10%) of each scheduled quantity will be used as an initial tolerance, provided that should operational conditions warrant, this value may be reasonably modified following mutual consent of the parties. In addition, PEC external sales excluding energy calls on PEC must equal zero ($c1=0$) understanding that short-term deviations in PEC sales quantities can occur, such that PEC shall have the right to verify after-the-fact that any small $c1$ values were not the result of exporting to other areas while importing from PJM. To the extent that either of the conditions is not met, PEC will pay the PJM SOUTHEXP LMP for the applicable hours.
8. All data provided to PJM by PEC will be used only for the purpose of conducting the protocols set forth herein, will be treated confidentially by PJM, and will be afforded the same treatment provided to Member confidential data under the PJM Operating Agreement.
9. PJM reserves the right to audit the data supplied by PEC to PJM by giving written notice to PEC no more than three months following provision of such data, and at least ten (10) business days in advance of the date that PJM wishes to initiate such audit, with completion of the audit occurring within sixty (60) days of such notice. Each party will be responsible for its own expenses related to any such audit.
10. PEC reserves the right to audit the calculations by PJM if PJM does not provide PEC the PECGEN LMP price and PEC reasonably believes they should have received the PECGEN LMP price. PEC shall provide written notice to PJM no more than three months following PEC's receipt from PJM of the relevant payment and at least ten (10) business days in advance of the date PEC wishes to initiate such audit, with completion of the audit occurring within sixty (60) days

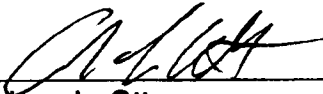
of such notice. Each party will be responsible for its own expenses related to any such audit.

11. PEC and PJM acknowledge that this Interface Pricing arrangement may be terminated by PJM or PEC upon at least ninety (90) days written notice to the other party including a statement of the reason for such termination; provided, however, that PJM may terminate this Interface Pricing arrangement at any time if PJM reasonably believes that this arrangement is threatening or compromising reliable operation of the system, in which case PJM will provide PEC with as much advance notice as is reasonably practicable under the circumstances.

12. In the event that any dispute related to this Interface Pricing arrangement arises between the parties, the parties shall, prior to initiating any adjudicatory process, attempt to resolve such dispute promptly and informally by referring the matter to a senior management representative of each company.

If PEC is in agreement with the foregoing terms and conditions, please so indicate by affixing your signature in the space provided below. Thank you for your cooperation.

Sincerely yours,



Andrew L. Ott
Vice President, Markets
On behalf of PJM Interconnection, L.L.C.

Agreed to and accepted this 16th day of February, 2007 KCB



Robert F. Caldwell
Vice President, Regulated Commercial Operations
On behalf of Progress Energy Carolinas, Inc.