

OPERATING AGREEMENT

THIS Operating Agreement (this “**Agreement**”), is entered into on the ____ day of _____, 2009, by and between:

- (1) The Louisiana Department of Natural Resources (“**DNR**”), represented and undersigned by _____, its duly authorized _____;
- (2) The Louisiana State Mineral Board (the “**Mineral Board**”), represented and undersigned by _____, its duly authorized _____; and
- (3) Jefferson Island Storage & Hub, LLC, a Delaware limited liability company, whose address is 1200 Smith Street, Suite 900, Houston, Texas 77002 (“**Jefferson Island**”), represented herein by _____, duly authorized by a resolution for AGL Resources Inc.’s Board of Directors, a copy of which resolution is attached hereto and made a part hereof as Exhibit “A”.

In this Agreement, DNR and the Mineral Board will be referred to collectively as the “**State**” and the State and Jefferson Island may be referred to collectively as the “**Parties**” and individually as a “**Party**.”

Recitals

A. The property that is the subject of this Agreement is an approximately 70.71 acre tract in Lake Peigneur, Iberia Parish, Louisiana, (the “**Property**”), title to which is in the State in its public trust domain. The Property is more particularly described as follows, to wit and as appears on Exhibit “B”:

All of the beds and bottoms, and all islands and other lands formed by accretion and dereliction in Lake Peigneur, with the following described boundaries: Beginning at a point having Coordinates of X=1,796,500.00 and Y=479,400.00; thence South 67 degrees 00 minutes 00 seconds West 2,199.99 feet to a point having Coordinates X=1,794,474.90 and Y=478,540.39; thence North 23 degrees 00 minutes 00 seconds West 1,399.99 feet to a point having Coordinates X=1,793,927.88 and Y=479,829.09; thence North 67 degrees 00 minutes 00 seconds East 2,199.99 feet to a point having Coordinates X=1,795,952.98 and Y=480,688.00; thence South 23 degrees 00 minutes 00 seconds East 1,399.99 feet to the point of beginning, containing approximately 70.71 acres.

B. A lease for Salt and Salt Brine, State Lease No. 14638, dated February 9, 1994, (the “**Salt Lease**”) was awarded by the State. The State and Jefferson Island entered into an Amendment of the Lease dated March 10, 2004 (the “**Amendment**”).

C. The Property is subject to a Surface/Subsurface Lease, State Lease No. 2259 dated February 9, 1994, (the “**Storage Lease**”), granted by the State of Louisiana State Land Office (the “**State Land Office**”).

D. Pursuant to the Salt Lease and the Storage Lease, Jefferson Island and/or its predecessors or successors, constructed and began to operate two salt dome storage caverns, *i.e.*, Well Nos. 972517 and 972518, for the storage of natural gas beneath the Property (the “**Existing Caverns**”). The Existing Caverns have operated continuously from their construction in the mid-1990s through the execution of this Agreement.

E. Various disputes arose between the Parties, including disagreement as to the validity and continued applicability and effectiveness of, and the extent of rights created by, the Salt Lease, the Storage Lease, and the Amendment, and regarding title to such rights.

F. Jefferson Island filed suit, seeking declaratory judgments, injunctions, and damages, on September 5, 2006, with such litigation captioned *Jefferson Island Storage & Hub. LLC versus State of Louisiana, Louisiana Department of Natural Resources and Louisiana State Mineral Board*, No. 547,011, and assigned to Div. 8, 19th Judicial District Court, Parish of East Baton Rouge (the “**Litigation**”). The Litigation addresses several different issues and matters in dispute between the Parties including, without limitation, the validity of the Salt Lease, the validity of the Amendment, the validity and scope of the Storage Lease, and the constitutionality of Act 241 of 2008 passed by the Louisiana Legislature.

G. Pursuant to La. R.S. 30:209, the State has the authority, upon a two-thirds vote of the members of the Mineral Board and after a public hearing conducted in the affected parish pursuant to La. R.S. 30:6, to enter into operating agreements whereby the State receives a share of revenues from the storage of oil, natural gas, liquid or liquefied hydrocarbons, or carbon dioxide, in whole or in part, as may be agreed upon by the Parties, and assumes all or a portion of the risk of the cost of the activity in those situations where the board determines it is in the best interest of the State either in equity or in the promotion of conservation to do so. Under La. R.S. 30:209, such authority expressly extends to, but is not limited to: (i) creating caverns in salt domes for the storage of oil, natural gas, liquid or liquefied hydrocarbons, or carbon dioxide; (ii) establishing an oil, natural gas, liquid or liquefied hydrocarbon, or carbon dioxide storage facility in an underground reservoir; (iii) taking over an abandoned surface or underground storage facility in order to maximize the useful life of the existing facility; (iv) establishing a contractual agreement for the operation of a carbon dioxide storage facility for the storage and distribution of carbon dioxide for secondary or tertiary recovery operations; and (v) establishing a contractual agreement on unleased acreage or where title is disputed to promote utilization of the State’s resources for storage. Further pursuant to La. R.S. 30:209, the Mineral Board may do all other things that may appear to be necessary or desirable.

H. The Parties desire to accomplish a settlement and compromise of the Litigation, and avoid the expense and risk of litigation, all of which would be in the best interest of both the Parties, both in equity and in the promotion of conservation.

I. Accordingly, the Parties now enter into this Agreement to effect its terms and intent, including the purpose of making and using the Existing Caverns and additional and

expanded caverns in the salt domes lying beneath the Property for the Injection, Storage, transportation, shipment, and Withdrawal of Storage Substances and for all other purposes necessary or incidental thereto and to create a relationship between the Parties whereby the State (i) will receive a share of revenues from the Storage of Storage Substances, as reflected in this Agreement, and (ii) will assume a portion of the risk of the cost of such activities and the operation of the Jefferson Island Facility as reflected in this Agreement as the Mineral Board has determined that it is in the best interest of the State in equity and in the promotion of conservation to do so.

NOW, THEREFORE, the Parties, in consideration of the premises and the mutual benefits to be derived respectively by the State and Jefferson Island, and the covenants and conditions of the mutual covenants set forth below, the adequacy and sufficiency of which is hereby acknowledged by both Parties, and weighing the hope of gain against the risk of loss, the State and Jefferson Island, in order to effect a compromise of their respective claimed rights, enter into this Agreement, mutually agreeing and stipulating as follows:

1. Definitions.

1.1. **“Applicable Law(s)”** means any valid, final, and non-appealable federal or state statute, law, rule, regulation, or order, or any judicial decision, as may now be in effect or which may be enacted, adopted or made effective at a future date. Applicable Laws include, without limitation, all statutes, laws, rules, regulations, orders, and judicial decisions that pertain to the Jefferson Island Facility, and any future amendments thereof, including, without limiting the generality of the foregoing, all such matters that pertain to protection of the environment, environmental matters, pollutants, minimum water quality standards, dredging, filing, local navigation, and/or health and safety matters.

1.2. **“Applicable Procedure(s)”** means the valid, final, and non-appealable standards, public processes, procedures, and rules applicable to the regulation of the Jefferson Island Facility, to the extent applicable, by the Louisiana Office of Conservation, DNR, and the Louisiana Department of Environmental Quality, as well as any other state or federal regulatory bodies having jurisdiction.

1.3. **“Associated Substances”** means water vapor and other vaporous or gaseous substances associated with, contained in and produced as an incident of Storage of natural gas, casing head gas or occluded gas from coal beds by ordinary production methods and/or of oil, natural gas, liquid or liquefied hydrocarbons.

1.4. **“Brining”** shall mean to inject water, brine or other substances utilized in brine salt mining for the purpose of creating or enlarging caverns under the Property within which to store or withdraw Storage Substances, and shall include any and all activities necessary and incidental to the actual boring and completion of the hole and completion of the well and/or Storage cavern.

1.5. **“Cushion”** or **“Pad Gas”** means a volume of gas used to maintain pressure and deliverability in the Storage caverns.

1.6. “**Drill**” or “**Drilling**” means the act of boring a hole to reach a proposed location under the Property.

1.7. “**Force Majeure Event**” means acts of God; strikes, lockouts or other industrial disturbances; acts of the public enemy; wars; blockades; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; storms, hurricanes or threat thereof resulting in evacuation or shutdown of operations; floods; washouts; or other natural disasters; threat of physical harm or damage resulting in the evacuation or shutdown, in whole or in part, of the Jefferson Island Facility and/or facilities necessary for the production, delivery or receipt of Storage Substances; arrests and restraints of the government, either federal or state, civil or military; civil disturbance; explosions, breakage, breakdown or accident to machinery, equipment, lines of pipe or the Jefferson Island Facility and the appurtenant facilities to the extent not due to Jefferson Island’s failure to act as a prudent operator; and the failure or inability of any pipeline that delivers or accepts Storage Substances to provide transportation services; and any other causes, whether of the kind herein enumerated or otherwise (but not including economic hardship), not reasonably within the control of the Party claiming suspension (including, but not limited to, acts of negligence or willful misconduct of third parties not under the control, employ or supervision of the party claiming suspension) and which by the exercise of due diligence such Party is unable, wholly or in part, to prevent or overcome. **Force Majeure** includes those instances (i) where either Party is required to obtain or maintain permits, the inability of such Party to acquire or maintain, or delays on the part of such Party, in acquiring, such permits, and (ii) where a party is required to secure permits or permissions from any governmental agency (federal, state or municipal, civil or military) or private party to enable such party to fulfill its obligations under any agreement, the inability of such Party to acquire or maintain, or delays on the part of such Party in acquiring, after the exercise of reasonable diligence, such permits and permissions. It is understood and agreed that the settlement of strikes or lockouts shall be entirely within the discretion of the Party having the difficulty and that the hereinafter requirement that any **Force Majeure Event** shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of the opposing party when such course is inadvisable in the discretion of the Party having the difficulty. It is further understood and agreed that any Force Majeure Event shall be removed with all reasonable dispatch by the Party claiming same.

1.8. “**Improvements and Equipment**” means all fixtures, trade fixtures, equipment, machinery, and tools, including all pipelines, pipe, pipe casing, separators, condensers, evaporators, holding tanks, generators, monitoring facilities, power lines, telephone lines, electrical lines and transmitters, towers, platforms, and any other structures or downhole equipment, and all alterations, additions, constructions, buildings or other improvements, and all materials, parts and components thereof, made, placed, or installed in or on the Property by the Jefferson Island Parties.

1.9. “**Injection**” means the deposit of Storage Substances into the Jefferson Island Facility.

1.10. “**Jefferson Island Facility**” means an underground Storage facility on the Property, including the Existing Caverns as existing now or as expanded; any future caverns constructed or created on the Property; and all Improvements and Equipment on the Property.

1.11. “**Jefferson Island Parties**” means Jefferson Island and its directors, members, officers, agents, employees, contractors, subcontractors, other representatives, and insurers, and each of its subsidiaries and affiliates, successors and assigns and their directors, members, officers, agents, employees, contractors, subcontractors, other representatives, and insurers, and each of them.

1.12. “**Leaching**” means to inject water, brine or other substance utilized in brine salt mining for the purpose of maintaining caverns under the Property within which to store or withdraw Storage Substances.

1.13. “**Storage**” means the activity of Injection, subsurface containment and/or Withdrawal of Storage Substances into or from the Jefferson Island Facility, together with related construction, Drilling, well completion, Brining, Leaching, transportation, and all other operations conducted on or within the boundaries of the Property and treatment necessary or incidental thereto.

1.14. “**Storage Substances**” means oil, natural gas, liquid or liquefied hydrocarbons, carbon dioxide, and Associated Substances, and such other gases or substances allowed by Applicable Law.

1.15. “**Withdrawal**” means the removal of Storage Substances from the Storage facility.

2. Approval; Effective Date.

2.1 Approval; Process.

2.1.1. Basis. As recited above, a dispute or disputes exist between the Parties. Through this Agreement, the Parties desire to avoid the expense and risk of litigation, and accomplish a settlement and compromise of the Litigation, which would be in the best interest of both the Parties, both in equity and in the promotion of conservation. This Agreement has been negotiated in good faith at arm’s length, with due consideration by the State of Applicable Law, Applicable Procedure, and the best interests of the State, as well as the State, local, and national interests in promoting the use and conservation of the State’s natural resources in a manner that benefits the State, pursuant to Applicable Law and Applicable Procedures.

2.1.2. Public Hearing. The State shall request the Commissioner of Conservation to conduct a public hearing pursuant to and in accordance with La. RS. 30:6, including as required by La. R.S. 30:209, (the “**Public Hearing**”). Following the conduct of the Public Hearing, the Commissioner of Conservation shall accumulate and compile a record of the comments received (the “**Record**”) and provide it to the Mineral Board promptly for consideration at the next regularly scheduled meeting of the mineral board after advertisement.

2.1.3. Signature. After the Public Hearing, Jefferson Island shall execute the Agreement and deliver it to the Mineral Board for further action. After Jefferson Island’s execution, the official or acting Secretary or a member of the staff of the State Mineral Board shall initial this Agreement and evidence the staff’s approval or disapproval and recommendation to the Mineral Board.

2.1.4. Approval or Disapproval. Promptly following and based on the Public Hearing, the Record properly compiled by the Commissioner, and other relevant factors identified, within its discretion, as material to its decision, the Mineral Board after due advertisement as required by law, shall promptly render its determination regarding this Agreement. Should the Mineral Board determine that this Agreement is in the best interest of the State in equity and/or in the promotion of conservation and is in compliance with Applicable Law and Applicable Procedure, it promptly shall approve the same, to be memorialized by its execution of this Agreement, and the Mineral Board, through its Chairman or his designee, will execute this Agreement no later than three (3) business days after the Mineral Board approves this Agreement. By such execution of this Agreement as provided herein, the State, and specifically the Mineral Board, will thereby confirm its determination that this Agreement is in the best interest of the State in equity and in the promotion of conservation. However, should the Mineral Board instead determine that this Agreement is not in the best interest of the State in equity or in the promotion of conservation or not in compliance with Applicable Law and Applicable Procedure, this Agreement shall be null and void and shall have no force or effect whatever and shall not be used in the Litigation in any manner whatsoever. Further, in the event that the Mineral Board does not approve this Agreement within ninety (90) days of Jefferson Island's execution of this Agreement, Jefferson Island shall have the right to rescind the execution and its affirmation of this Agreement. Jefferson Island's right to rescind shall expire once the Mineral Board has approved this Agreement.

2.2. Effective Date: Conditions Precedent. The **Effective Date** of this Agreement shall be the date on which all of the following events have occurred, to wit:

- A. The required Public Hearing shall have been conducted.
- B. The Agreement shall have been executed by Jefferson Island.
- C. The Agreement shall have been advertised according to Applicable Law.
- D. The Louisiana State Mineral Board shall have approved this Agreement and the signatures indicative thereof shall have been affixed thereto.

3. Rights. The State, pursuant to the authority of La. RS. 30:209 and other Applicable Law, does herein grant, subject to the conditions herein set forth and immediately as of the Effective Date, to Jefferson Island the following exclusive rights:

3.1. Permitted Purposes. Jefferson Island shall have the sole and exclusive right to use and occupy the Property for the purposes set forth hereinafter, and have full control of all operations in connection with the construction, preparation, installation, maintenance, operation, expansion, enlargement, modification and disposition of the Jefferson Island Facility, including the expansion of the Existing Caverns, the Brining, Leaching, and creation of new caverns, the installation and removal of Improvements and Equipment, and the Injection, Storage, transportation, shipment, handling, transmission, Withdrawal, sale or other disposition of Storage Substances stored, or to be stored from time to time, in the Jefferson Island Facility (collectively, without limitation, the "**Permitted Purposes**"), subject to Applicable Laws. Jefferson Island

shall conduct all such operations in a good and workmanlike manner as a reasonably prudent operator.

3.2. Incidental Rights. Without limiting the foregoing, and for the avoidance of doubt, Jefferson Island also shall have the sole and exclusive right to conduct or perform all activities as may be necessary and/or incidental to the Permitted Purposes, including, but not limited to: (a) installing, maintaining, replacing, removing, Brining, Leaching, monitoring, inspecting, testing, and/or operating the equipment necessary and/or incidental to maintaining and/or operating the existing, new and expanded storage caverns; (b) upon obtaining any permits or approvals required under Applicable Law, performing dredging when necessary and/or incidental to maintaining or operating the caverns; (c) performing sonar tests or other testing to determine cavern capacity; (d) injecting water into, and removing brine from, the caverns to combat the phenomenon of “salt creep,” a process in which the cavern walls slowly converge as a result of the weight of the salt, overburden, and rockmass temperature surrounding the caverns; (e) disposing of any brine or salt withdrawn from the subsurface of the Property in conjunction with its performance of the actions permitted under this Agreement in any lawful manner (such disposal may include, but is not limited to, reinjection of the brine into a permitted saltwater disposal well); (f) Drilling any wells for Injection, Storage, or Withdrawal of the Storage Substances to be stored in the caverns; (g) constructing, operating, and maintaining electrical cables, communication cables, and pipelines (gas, water, or other) for the transport of substances involved in the Storage operations; (h) performing mechanical integrity tests; (i) injecting water or brine into, and removing brine from, the caverns for pressure maintenance in operations or mechanical integrity activities; (j) storing and using such quantities of fuel oil and other materials or substances at the Property as may be reasonable in connection with the Jefferson Island Facility; (k) erecting, establishing, maintaining, replacing, utilizing and demolishing any existing or future Improvements and Equipment and any other necessary facilities; (l) Drilling, operating, maintaining, replacing, plugging and abandoning any disposal wells, Injection wells, and other wells related to the operation of Jefferson Island Facility; (m) constructing, installing, laying, maintaining, replacing, abandoning, and disposing of any pipelines, below-ground storage facilities, compressors, and buildings; (n) storing, handling, transporting, selling or disposing of Storage Substances, and transferring into or out of Jefferson Island Facility any Storage Substance and brine, fresh water or other displacement fluids or substances deemed appropriate by Jefferson Island and in accordance with Applicable Law; (o) drying, treating, and purifying the Storage Substances on the surface of the Property; (p) extracting brine and salt from the caverns; (q) Drilling and Leaching to create new or expanded caverns; and (r) using the surface of the Property for constructing and erecting buildings, plants, warehouses, tanks, machinery, equipment, fences, gates, pipelines, compressors, loading racks, dehydration, treating and purification equipment, telephone, water and utilities.

3.3. Storage Lease. Further without limiting the foregoing, Jefferson Island shall have the sole and exclusive right to use and occupy the Property for all purposes permitted, granted, or allowed by the Storage Lease for the full term of the Storage Lease, together with the obligations set forth therein, with such rights and obligations ratified, granted and accepted in duplicate by this Agreement. Upon termination or expiration of the Storage Lease in accordance with its terms, the right to use and occupy the Property as set forth above shall be in accordance with the terms and conditions of this Agreement.

3.4. Water Rights; Chicot Aquifer Withdrawal Restriction. Further without limiting the foregoing, and subject to obtaining any approvals required under Applicable Law, Jefferson Island shall have the right to drill for and extract water as may be necessary, incidental, or desirable for the Permitted Purposes, including, without limitation, Injection into the caverns, Brining, Leaching, and/or maintaining or expanding an Existing Cavern or creating, maintaining, or expanding new caverns; provided, however, Jefferson Island shall not withdraw more than three million gallons (3,000,000 US gallons) per calendar day from the Upper Chicot Aquifer, as presently defined by the United States Geological Survey and the Louisiana Geological Survey, measured as a quarterly average (sum of total gallons withdrawn from all Upper Chicot wells divided by the total number of days in calendar quarter) for use on the Property. Jefferson Island shall maintain written records of such water withdrawn from the Upper Chicot Aquifer, as measured by a meter on each water withdrawal wellhead for each period ending on March 31, June 30, September 30 and December 31 of each year. In the event that Jefferson Island determines that the amending or revising the three million gallons (3,000,000 US gallons) per calendar day limitation is necessary, incidental, or desirable, Jefferson Island may propose an alternative or revised volume limitation, either on a permanent or temporary basis, to the State. The State shall determine whether to approve such alternative limitation.

3.5. Limitation. The rights granted to Jefferson Island pursuant to this Agreement shall be enjoyed in accordance with Applicable Laws and shall apply solely and only to the Property, except as to compensation provided in Section 8.4 of this Agreement.

4. Operations.

4.1. Operational Control and Discretion. Notwithstanding the payments to be made to the State for the Compensation as reflected in this Agreement, Jefferson Island shall have sole operational control and discretion over all aspects of the Jefferson Island Facility, including all business, operational, contractual, financial, marketing, sales, legal, and related activities and decisions, including, but not limited to, whether and when to pursue or cease building caverns and whether and when to continue or cease operating caverns, in whole or in part. The State shall have no responsibility or right to conduct, control, or direct regarding such matters. Nothing in this Section shall prohibit the State, acting in its capacity as regulatory authority, from enforcing all Applicable Laws and Applicable Procedures against Jefferson Island, specifically including any applicable environmental laws and regulations.

4.2. Performance Standards; Applicable Laws and Procedures. In exercising its sole operational control and discretion, Jefferson Island shall conduct all operations on the Property in a good and workmanlike manner as a reasonably prudent operator, in compliance with all Applicable Laws, all Applicable Procedures, and in accordance with common industry practices with regard to similar Storage operations. All Parties are bound to perform this Agreement in good faith, and all hearings, submissions of documentation, plans of operation, permits and reports required in conjunction with these authorized operations shall be complied with in a timely manner.

4.3. Permits. Without limiting the foregoing, Jefferson Island shall be responsible to obtain all necessary permits regarding the Jefferson Island Facility. Once obtained, such permits shall be deemed to be Applicable Laws with which Jefferson Island will be solely responsible to

comply. In this regard, the Parties agree that the permitting process suspended by the DNR's August 10, 2006 correspondence will be restarted (not begun anew) and permits already received will remain in effect and/or be reinstated, as applicable, all within five (5) business days after the Effective Date. The State shall cooperate in good faith in the permitting process, including processing the same to the extent consistent with Applicable Laws and Applicable Procedures.

4.4. Improvements and Equipment. All Improvements and Equipment, including all wells, pipelines, tank batteries, and other facilities and equipment, placed in, on, or under the Property shall be owned and controlled by Jefferson Island, and its successors in interest, and the State shall have no interest (ownership, controlling or otherwise) therein whatsoever.

4.5. Standard of Care with Respect to the Property. Jefferson Island shall conduct all operations on the Property in a good and workmanlike manner and act as a reasonably prudent operator with respect to its use of the Property pursuant to this Agreement.

4.6. Costs; Risk. All costs and expenses incurred in connection with operations on or associated with this Agreement shall be advanced and paid solely by Jefferson Island and the State will be held free and harmless from liability or responsibility for any and all costs and expenses so incurred under the terms of this Agreement; provided, however, the State is assuming a portion of the risk of the cost of the Jefferson Island Facility as reflected in this Agreement, including the manner of calculating the Compensation, which inherently incorporates costs and risk of costs. The terms of this Agreement are based on the State's best estimate and the recognition that the State may ultimately receive either a lesser or greater effective return against other options considered by the State, depending on the final project outcome.

5. Insurance.

5.1. Coverage Required. Until the termination or expiration of this Agreement, Jefferson Island shall pay all costs and/or premiums for and shall maintain policies of insurance providing coverage against third party claims relating to the Jefferson Island Facility with a carrier approved in the State of Louisiana and rated by AM Best or a similar agency not lower than "A-" with a surplus size of "VII or higher." Such commercial general liability policies shall name the State as an additional insured. Such policies of insurance shall be subject to the terms and conditions of the policies and shall have the following limits:

- A. For bodily injury, Fifty Million (\$50,000,000) Dollars per occurrence.
- B. For property damage which is not considered to be environmental damage, Fifty Million (\$50,000,000) Dollars per occurrence.
- C. For environmental damage, Thirty Million Dollars (\$30,000,000) for each occurrence.

5.2. Proof of Insurance. Jefferson Island shall provide the State with current certificates of insurance demonstrating compliance with the requirements of Section 5.1 above (a) within fifteen (15) days of the Effective Date; (b) within fifteen (15) days following annual policy renewals during the Term of this Agreement; and (c) within fifteen (15) days of each

reasonable request therefor by the State. Such certificates of insurance shall contain the requirements that (i) those insurance companies provide thirty (30) days' prior written notice of any cancellation or termination of those insurance policies as stated on a standard Accord certificate form or such similar form, and (ii) the insurance companies providing commercial general liability insurance waive any right of subrogation in favor of the State limited to the extent of obligations and liabilities assumed by Jefferson Island under this Agreement.

5.3. Suspension and Termination. In the event notice of cancellation of the insurance required by Section 5.2 above is given and another certificate of insurance evidencing the issuance of another policy meeting all the terms and conditions hereof is not furnished prior to cancellation, the rights of Jefferson Island under this Agreement, shall automatically and without further notice to Jefferson Island, be suspended and Jefferson Island shall immediately suspend operations under this Agreement, except for operations necessary to maintain the viability of the caverns for the purposes hereof and as necessary for health, safety, and/or environmental concerns. The reinstatement of the requisite insurance coverage as evidenced by the certificate showing same to the State shall immediately thereon lift the suspension and allow Jefferson Island to resume operations. Should Jefferson Island fail to obtain coverage within one hundred twenty (120) days after receiving a written notice and request to obtain insurance from the State, this Agreement may terminate at the option of the State.

5.4. Alternative Financial Assurance. In the event that Jefferson Island is not able to obtain insurance coverage required by this Section 5 after reasonable diligence or on commercially reasonable terms, or at any other time Jefferson Island desires to propose an alternative to such coverage to the State, Jefferson Island may propose an alternative or revised form of financial assurance, such as other insurance, letters of credit, a corporate guarantee, or other financial tools, alone or in combination, which provide substantially similar financial assurance of the ability to satisfy the liabilities covered by the insurance coverage required by this Section 5. The State, in its sole discretion, shall determine whether to approve such alternative proposal. If approved, Jefferson Island shall execute and/or otherwise finalize all instruments or other documents required in order to make such alternative form of financial assurance legally binding within thirty (30) days of such approval, but not later than one hundred twenty (120) days after receipt of notice to obtain insurance as set forth in Section 5.3. The time periods in Section 5.3 shall be tolled while the State considers the proposal by Jefferson Island.

6. Indemnity.

6.1. Indemnity by Jefferson Island. **JEFFERSON ISLAND, AND ITS SUCCESSOR AND ASSIGNS, AGREES THAT IT WILL INDEMNIFY, DEFEND AND HOLD THE STATE FREE AND HARMLESS OF AND FROM ANY AND ALL THIRD PARTY CLAIMS OF WHATSOEVER KIND OR NATURE, INCLUDING, BUT NOT LIMITED TO, DAMAGES TO PERSONS OR PROPERTY, AND FROM ANY AND ALL COSTS AND EXPENSES RELATING TO THE DEFENSE OF ANY SUCH CLAIMS, INCLUDING REASONABLE ATTORNEY FEES INCIDENT THERETO, THAT MAY ARISE OUT OF, OR BY REASON OF, THE PERFORMANCE OF ALL SERVICES, ACTIVITIES, OBLIGATIONS, DUTIES AND OPERATIONS UNDER THIS AGREEMENT BY JEFFERSON ISLAND, OR ANY OF ITS EMPLOYEES, AGENTS, CONTRACTORS, SUBCONTRACTORS, OR OTHER REPRESENTATIVES, TO THE**

EXTENT DUE TO THE GROSS NEGLIGENCE OR INTENTIONAL ACT BY JEFFERSON ISLAND, ITS EMPLOYEES, DIRECTORS, OFFICERS, AGENTS, CONTRACTORS, SUBCONTRACTORS, OR OTHER REPRESENTATIVES PERFORMING WORK UNDER THE AUTHORITY OF THIS AGREEMENT, AND PROVIDED IN NO EVENT SHALL THE INDEMNITY APPLY TO OR REQUIRE JEFFERSON ISLAND TO INDEMNIFY, DEFEND OR HOLD HARMLESS THE STATE TO THE EXTENT SAID CLAIMS, DAMAGES TO PERSONS OR PROPERTY, RESULT FROM OR IN ANY WAY ARISE FROM, OR ARE OCCASIONED, BROUGHT ABOUT OR CAUSED IN WHOLE OR IN PART, BY THE GROSS NEGLIGENCE, OR WILLFUL MISCONDUCT OF THE STATE, ITS EMPLOYEES, AGENTS, OFFICERS, CONTRACTORS, SUBCONTRACTORS, OR SUPPLIERS INVITEES OR SERVANTS, WHETHER EMPLOYEES OR INDEPENDENT CONTRACTORS, NOR SHALL JEFFERSON ISLAND INDEMNIFY THE STATE FOR ANY CLAIM WHICH IS NOT DETERMINED TO BE DUE TO THE GROSS NEGLIGENCE OR INTENTIONAL ACT BY JEFFERSON ISLAND, ITS EMPLOYEES, DIRECTORS, OFFICERS, AGENTS, CONTRACTORS, SUBCONTRACTORS, OR OTHER REPRESENTATIVES PERFORMING WORK UNDER THE AUTHORITY OF THIS AGREEMENT.

6.2. Indemnity by the State. **THE STATE AGREES THAT IT WILL INDEMNIFY, DEFEND AND HOLD THE JEFFERSON ISLAND PARTIES FREE AND HARMLESS OF AND FROM ANY AND ALL THIRD PARTY CLAIMS OF WHATSOEVER KIND OR NATURE, INCLUDING, BUT NOT LIMITED TO, DAMAGES TO PERSONS OR PROPERTY, AND FROM ANY AND ALL COSTS AND EXPENSES RELATING TO THE DEFENSE OF ANY SUCH CLAIMS, INCLUDING REASONABLE ATTORNEY FEES INCIDENT THERETO, THAT MAY ARISE OUT OF, OR BY REASON OF, THE PERFORMANCE OF ALL SERVICES, ACTIVITIES, OBLIGATIONS, DUTIES AND OPERATIONS UNDER THIS AGREEMENT BY THE STATE, OR ANY OF ITS EMPLOYEES, AGENTS, CONTRACTORS, SUBCONTRACTORS, OR OTHER REPRESENTATIVES, TO THE EXTENT DUE TO THE GROSS NEGLIGENCE OR INTENTIONAL ACT BY THE STATE, ITS EMPLOYEES, OFFICERS, AGENTS, CONTRACTORS, SUBCONTRACTORS, OR OTHER REPRESENTATIVES PERFORMING WORK UNDER THE AUTHORITY OF THIS AGREEMENT, AND PROVIDED IN NO EVENT SHALL THE INDEMNITY APPLY TO OR REQUIRE THE STATE TO INDEMNIFY, DEFEND OR HOLD HARMLESS THE JEFFERSON ISLAND PARTIES TO THE EXTENT SAID CLAIMS, DAMAGES TO PERSONS OR PROPERTY, RESULT FROM OR IN ANY WAY ARISE FROM, OR ARE OCCASIONED, BROUGHT ABOUT OR CAUSED IN WHOLE OR IN PART, BY THE GROSS NEGLIGENCE, OR WILLFUL MISCONDUCT OF JEFFERSON ISLAND, ITS EMPLOYEES, AGENTS, OFFICERS, CONTRACTORS, SUBCONTRACTORS, OR SUPPLIERS INVITEES OR SERVANTS, WHETHER EMPLOYEES OR INDEPENDENT CONTRACTORS, NOR SHALL THE STATE INDEMNIFY THE JEFFERSON ISLAND PARTIES FOR ANY CLAIM WHICH IS NOT DETERMINED TO BE DUE TO THE GROSS NEGLIGENCE OR INTENTIONAL ACT BY THE STATE, ITS EMPLOYEES, OFFICERS, AGENTS, CONTRACTORS, SUBCONTRACTORS, OR OTHER REPRESENTATIVES PERFORMING WORK UNDER THE AUTHORITY OF THIS AGREEMENT.**

7. Release. **THE STATE WAIVES, RELEASES AND FULLY AND FOREVER DISCHARGES ANY AND ALL RIGHTS OF RECOVERY, CLAIMS, ACTIONS, DAMAGES, LOSSES, EXPENSES (INCLUDING ATTORNEYS' FEES, COURT COSTS, AND COSTS OF INVESTIGATION AND DEFENSE) AGAINST THE JEFFERSON ISLAND PARTIES, FOR THE LOSS OF PROFITS, ADDITIONAL COMPENSATION, THE COST OF REPAIR OR REPLACEMENT OF ANY ONE OR MORE OF THE STORAGE CAVERNS, THE JEFFERSON ISLAND FACILITY OR APPURTENANT FACILITIES, OR OTHER ECONOMIC LOSSES OF ANY KIND, AS WELL AS ANY SPECIAL, CONSEQUENTIAL, OR PUNITIVE DAMAGES, THAT OCCUR OR ARISE OUT LOSS OF OR DAMAGE TO, OR USE OF, THE PROPERTY AND/OR THE JEFFERSON ISLAND FACILITY (INCLUDING ALL CAVERNS AND APPURTENANT FACILITIES); PROVIDED, HOWEVER, THAT THE STATE RESERVES ANY RIGHTS IT MAY HAVE TO INDEMNIFICATION FOR THIRD PARTY CLAIMS FOR ENVIRONMENTAL DAMAGE AND/OR TO INSURANCE COVERAGE UNDER PARAGRAPHS 5 AND 6 OF THIS AGREEMENT AND IT RESRVES THE RIGHT TO ENFORCE ANY APPLICABLE ENVIRONMENTAL LAWS AND REGULATIONS AGAINST JEFFERSON ISLAND.**

8. Compensation; Total Compensation Payable. As complete and total consideration for the rights and interests granted under this Agreement to Jefferson Island, Jefferson Island shall make the following payments to the State, as follows:

8.1 Royalty. Jefferson Island shall pay an annual royalty for each ton of salt (2,000 pounds dry basis) produced from the Property under this Agreement in an amount equal to ten and one half cents (\$.105) per ton of dry salt produced. Within forty-five (45) days after the close of each calendar year, Jefferson Island shall furnish to the State a statement of the amount of salt produced and shall, within (5) days thereafter, pay the royalty due to the State for such year.

8.2 EBIT Sharing on New Capacity. To the extent Jefferson Island expands the Jefferson Island Facility after the Effective Date of this Agreement, Jefferson Island shall pay to the State one and eighteen one-hundredths percent (1.18%) of earnings before interest and taxes (“**EBIT**”) resulting from: (a) Jefferson Island’s Storage operations from (i) a new cavern (a cavern other than the Existing Caverns) created and placed into operation under this Agreement on the Property and (ii) any expansion of an Existing Cavern on the Property by more than 5% above the Total Capacity of the Existing Cavern as of the Effective Date (collectively, “**New Capacity**”) and (b) Jefferson Island’s transportation (*i.e.*, wheeling) of Storage Substances, if any, to the extent such transportation utilizes Improvements and Equipment on the Property. The EBIT attributed to the New Capacity shall be determined by multiplying Jefferson Island’s EBIT resulting from Storage operations on the Property by the ratio of New Capacity (as defined above) to the Total Capacity of all caverns in operation under the Property. The calculation of this ratio will be made as of the last day of the calendar year. For purposes of this calculation, the total capacity of each cavern will be the capacity determined by the most recent available sonar test on such cavern or the most recent available regulatory filing made to the State that reports the capacity of such cavern, whichever is more current (“**Total Capacity**”). Two examples of the Compensation calculation for the Existing Caverns and New Capacity are set forth in Exhibit C, Columns 1 (2 Existing Caverns) and 3 (Caverns 3 & 4 Full Year In-Service).

In addition, if a cavern is (a) placed into operation during the calendar year; or (b) not operating due to a Force Majeure Event, the Total Capacity and/or New Capacity attributed to such cavern will be prorated based on the number of full or partial months of the year in which the cavern was in operation. An example of the Compensation calculation for caverns that are not in operation for a full calendar year is set forth in Exhibit C, Column 2 (Cavern 3 Mid-Year In-Service). Because the compensation the State may receive under this Section 8.2 is based on EBIT, the State both (a) will receive a share of revenues from the Storage of the Storage Substances and the operation of the Jefferson Island Facility by Jefferson Island and (b) will assume a portion of the risk of the cost of such activities, all in compliance with Applicable Law, including La. R.S. 30:209. All compensation shall be payable at the times provided below at the address of the State set forth in Section 13 below or such other address as the State may designate in writing to Jefferson Island, without any demand, setoff or deduction whatever, except as provided for in this Agreement.

8.3 EBIT from Existing Caverns. Jefferson is compensating the State for the Existing Caverns under the terms of the Storage Lease. Upon the expiration or termination of the Storage Lease, the Existing Caverns will be considered New Capacity for purposes of the Compensation calculation described in Section 8.2. An example of this Compensation calculation is set forth in Exhibit C, Column 5 (4 Caverns – Expiration of Storage Lease).

8.4 Caverns Located Off of the Property. In the event that Jefferson Island creates caverns for the storage of Storage Substances which are off of the Property but which utilize one of more of the Improvements and Equipment (“**Off-Property Caverns**”), these new Off Property Caverns will be considered part of Total Capacity, but not New Capacity, under the Compensation calculation. An example of this Compensation calculation is set forth in Exhibit C, Column 4 (Additional Caverns Off of Property). Storage and lease payments associated with these new Off Property Caverns will be governed by separate and independently-negotiated agreements between Jefferson Island and the State, to the extent the off-Property caverns are located on State lands.

8.5 Calculation of EBIT. EBIT shall be calculated using only the revenue, costs, and expenses that are generated from, or incurred on behalf of and for the direct benefit of the Jefferson Island Facility, as described in the example calculation set forth in Exhibit “C” to this Agreement, and shall be calculated in accordance with accounting principles generally accepted in the United States at the time the calculations are performed, including the authoritative pronouncements of the Financial Accounting Standards Board current as of the period for which such calculation is being performed, including Statements of Standards, Concept Statements, Interpretations, technical Bulletins, and FASB Staff Positions. In the event such standards by the FASB are discontinued, EBIT shall be calculated in accordance with guidelines of substantially equivalent authority. To the extent that any goods or services are provided by affiliates of Jefferson Island, the costs of which are to be included in the calculation of EBIT, such goods or services shall be provided on fees and rates comparable to fees and rates for similar goods and services provided by nonaffiliated third parties. To the extent that any goods or services are provided to affiliates of Jefferson Island, the revenues of which are to be included in the calculation of EBIT, such goods or services shall be provided on fees and rates comparable to fees and rates for similar goods and services provided to nonaffiliated third parties.

8.6 Financial Statements and Payment. As soon as reasonably practicable, but not later than sixty (60) days, after the end of each calendar year during the Term of this Agreement, Jefferson Island shall provide a copy of its unaudited financial statements for that year and a statement of EBIT and Compensation payable based thereon. Jefferson Island shall pay the State all EBIT sharing Compensation due and owing for each year no later than thirty (30) days after providing Jefferson Island's unaudited financial statements for the year. In addition to the State's audit rights as provided in Section 9 of this Agreement, Jefferson Island shall deliver to the State within thirty (30) days after written request therefor by the State such supporting information and schedules as may be reasonably necessary to verify the EBIT calculation. To the extent that Jefferson Island does not comply with the deadlines provided in Sections 8.2 - 8.6 of this Agreement for any reason, Jefferson Island shall be entitled to a thirty (30) day notice and an opportunity to cure such default within thirty (30) days after audit verification of any differences or disputes regarding EBIT or capacity.

9. Records; Audit.

9.1. Required Records; Review. For as long as required by Applicable Law or Applicable Procedure, Jefferson Island shall maintain and retain all records concerning Jefferson Island's operation of the Jefferson Island Facility (other than those identified in Section 9.2) that are required by Applicable Law or Applicable Procedure to be created and maintained. In addition to any rights granted by Applicable Law or Applicable Procedure, the State and its agents shall have the right, upon not less than fifteen (15) business days prior written notice to Jefferson Island and during normal business hours, to review such records as well as all other records created and maintained by Jefferson Island concerning the design, construction, maintenance, modification, and physical operation of the Jefferson Island Facility. Jefferson Island shall reasonably cooperate with the State in any such review, and any such review shall be at the sole cost of the State and shall be done so as not to unreasonably interfere with Jefferson Island's operations.

9.2. Financial Records; Audit. Jefferson Island shall preserve all books and records used to calculate the Compensation for a period of at least three (3) years after any payment. In addition to any rights granted by Applicable Law or Applicable Procedure, the State and its agents shall have the right, at any time, to audit Jefferson Island's books and records as they pertain to the calculation of the Compensation. Jefferson Island shall reasonably cooperate with the State in any such audit, and any such audit shall be at the sole cost of the State and shall be done so as not to unreasonably interfere with Jefferson Island's operations; provided, however, if such audit should disclose that Jefferson Island's final statement of the Compensation made in connection with any applicable payment, as the case may be, was less than ninety percent (90%) of the Compensation as determined by the State's audit, Jefferson Island shall be responsible for the reasonable cost of the audit. Jefferson Island shall be notified in writing of any exception taken as a result of an audit.

9.3. Dispute Resolution.

9.3.1. Negotiation. In the event that Jefferson Island disputes the results of the State's audit, the dispute shall be referred to senior executives or representatives of the Parties

with full authority to settle the dispute who shall likewise meet to attempt to resolve the dispute. If the dispute has not been resolved within thirty (30) calendar days following referral to the senior representatives, any Party may then initiate mediation of the dispute as provided in Section 9.3.2 of this Agreement.

9.3.2. Mediation. If the dispute has not been resolved through negotiations as contemplated in Section 9.3.1 of this Agreement, the Parties shall endeavor to settle the dispute by non-binding mediation before a mutually acceptable mediator at a mutually acceptable date and time. If the dispute has not been resolved within thirty (30) calendar days following referral to mediation, unless such deadline has been extended by mutual, written agreement of the Parties, any Party may then pursue arbitration of the dispute as provided in Section 9.3.3 of this Agreement.

9.3.3. Arbitration. If the dispute has not been resolved through mediation as contemplated in Section 9.3.2 of this Agreement, the Parties shall mutually select a qualified, independent third party accountant who shall have technical experience in the subject matter of the dispute and who shall serve as arbitrator and make the determination. If the Parties cannot agree on the selection of a single arbitrator, they shall each appoint an arbitrator and those two arbitrators shall select a third arbitrator, and those three arbitrators shall be the arbitrators of the dispute. If the two arbitrators appointed by the Parties shall be unable to agree upon the appointment of the third arbitrator within five (5) calendar days after the appointment of the second arbitrator, both arbitrators shall give written notice of such failure to agree to the Parties, and, if the Parties again fail to agree upon the selection of such third arbitrator within five (5) calendar days after the arbitrators appointed by such Parties give such notice, then any Party upon written notice to other Parties may require such appointment from the American Arbitration Association pursuant to its Commercial Arbitration Rules. Except to the extent inconsistent with the procedures set forth in this Agreement, the Commercial Arbitration Rules of the American Arbitration Association shall govern the conduct of any arbitration. All information provided by the Parties shall be maintained as confidential information by all Parties to the extent such information was confidential prior to submittal. During the dispute, Jefferson Island shall pay all undisputed compensation to the State.

9.3.4. Arbitrator Costs. The Parties shall initially split the cost of the single arbitrator, or pay the cost of their respective arbitrator and split the cost of the third arbitrator, as the case may be; provided, however, the prevailing party, shall be entitled to recover as damages the entire costs of the Arbitration it has incurred, including the costs of the arbitrator it has paid and advanced, and its reasonable legal fees and expenses.

9.3.5. Finality; Enforcement. The determination by the arbitrator(s) shall be final and conclusive as to all matters submitted to arbitration, and may be enforced by any Party in any court of competent jurisdiction.

10. Term and Termination.

10.1. Term. The term of this Agreement shall commence on the Effective Date and shall continue until this Agreement is terminated in accordance with the provisions of Section 10.2 or Section 5.3.

10.2. Termination. Upon any termination of this Agreement, Jefferson Island shall have no further rights to operate or further obligations under this Agreement other than those rights and obligations provided in Sections 6 and 11, and all Applicable Law(s). This Agreement shall terminate as follows:

10.2.1. Lapse. This Agreement shall terminate if, for a period of thirty-six (36) consecutive months, none of the Existing Caverns or new caverns on the Property contain Storage Substances and all of these caverns contain only (a) Cushion or Pad Gas or (b) some other substance stored merely for the purpose of avoiding collapse or structural failure of the caverns, except where such failure or inability to store Storage Substances in any of the caverns is excused due to a Force Majeure Event or any other provision of this Agreement or Applicable Law; provided, however, such time period shall be tolled on a day-for-day basis for so long as such lapse is due, in whole or in part, to actions or inactions on the part of the State or reasons reasonably within the State's control, including any State regulatory process, such as permitting.

10.2.2. Optional Termination. Notwithstanding anything stated in this Agreement to the contrary, in addition to any other rights of termination provided in this Agreement or Applicable Law, Jefferson Island shall have the continuing discretionary right to terminate this Agreement at any time by giving the State thirty (30) days written notice, provided that Jefferson Island has likewise voluntarily released all rights under the Storage Lease or the Storage Lease has otherwise terminated.

10.2.3. Reformation. If not otherwise previously terminated pursuant to this Agreement, this Agreement shall terminate ninety-nine (99) years from the Effective Date if a final, non-appeal Court order determines that such termination is required by Applicable Law.

11. Closure and Decommissioning. Upon the termination of this Agreement, at its sole cost and expense, and, in conformity with any and all Applicable Laws and Applicable Procedures, Jefferson Island shall remove its Improvements and Equipment and shall decommission, including plugging and abandonment of wells as required, the Jefferson Island Facility as and only to the extent which a reasonably prudent operator would under Applicable Law(s), it being understood that Jefferson Island shall not be required to, nor will it be possible to, restore the Property to its pre-operating, pre-drilling and/or pre-storage condition. Jefferson Island shall cause to remain in full force and effect the insurance coverage required by paragraph 5 until such time as the action contemplated by this paragraph shall be completed.

12. Force Majeure.

12.1. If, at any time this Agreement is being validly maintained under any of its provisions, a Force Majeure Event prevents Jefferson Island from performing any obligation under this Agreement or conducting the operations by which this Agreement is being held, in whole or in part, then (i) such failure shall be excused by virtue of the Force Majeure Event, (ii) operations shall be deemed to be occurring for purposes of this Agreement, including Section 10.2.1, during the Force Majeure Event, and (iii) any deadline, critical date, or time period shall be tolled on a day-for-day basis for so long as the Force Majeure Event and its effects prevent the requisite performance, provided that Jefferson Island: (a) has given the State, through the Office of Mineral Resources, timely written notice, which notice shall contain date and type of Force

Majeure Event which has occurred, identify the effects of the Force Majeure Event, and contain an estimated time when operations will resume and (b) is diligently, reasonably, and in good faith attempting to mitigate and eliminate the effects of the Force Majeure Event and resume required operations or compliance. However, Jefferson Island shall not be required to accept any unreasonable contract terms or conditions nor shall Jefferson Island be required to incur any unreasonable economic penalty, cost or expense to remedy or cure a Force Majeure Event.

12.2. Under no circumstances shall the occurrence of a Force Majeure Event prevent or negate the obligation of Jefferson Island to pay the Compensation when due or to provide the insurance coverage required in Section 5.1 of this Agreement.

13. Notice and Payment. Notices, reports, statements, and any and all written documents in this Agreement required to be given or furnished by any of the Parties shall be in writing and mailed or delivered to the following addresses of the Parties, or to such other address as either Party shall designate, by proper notice, to the other Party:

If to the State: Department of Natural Resources
Office of Mineral Resources
Attention: State Mineral Board
LaSalle Building, 8th Floor
Post Office Box 2827
617 N. Third Street
Baton Rouge, Louisiana 70802-2827

If to Jefferson Island: Jefferson Island Storage and Hub, LLC
1200 Smith Street, Suite 900
Houston, Texas 77002

And:

AGL Resources Inc.
Attention: General Counsel, Location 1470
Ten Peachtree Place
Atlanta, Georgia 30309

14. Disposition of the Storage Lease; the Salt Lease; and the Litigation.

14.1. The Storage Lease. The Storage Lease will remain in effect pursuant to its terms and conditions. The rights and obligations provided by this Agreement are in addition to, and not in limitation of, the rights and obligations provided by the Storage Lease, it being understood and acknowledged that many of the rights and obligations provided by this Agreement also are provided by the Storage Lease, which has independent legal affect, and vice versa. As provided in Section 3.3 of this Agreement, Jefferson Island still shall have and continue to have the sole and exclusive right to use and occupy the Property for all purposes permitted, granted, or allowed by this Agreement notwithstanding and without regard to any expiration or termination of the Storage Lease, so long as this Agreement is in full force and effect.

14.2. The Salt Lease. Upon (a) execution of this Agreement by the Parties; (b) the permits sought by Permit Applications Nos 26048 and 26049, as amended, filed by Jefferson Island with the DNR on November 11, 2005, being issued and becoming non-appealable; and (c) the Class III brine extraction wells covered by those permit applications (or any wells substituted therefore) being brined to completion, Jefferson Island shall file a release of any rights it may have under the Salt Lease, as amended, by filing a release in the public records of Iberia Parish; provided however, that in no event shall Jefferson Island's release of its rights under the Salt Lease occur later than four (4) years after the date that the permit applications become non-appealable.

14.3. The Litigation. From the Effective Date, the Litigation will be held in abeyance by the Parties. Upon the permits sought by Permit Applications Nos 26048 and 26049 filed by Jefferson Island with the DNR on November 11, 2005, being issued and becoming final and non-appealable, Jefferson Island will dismiss the Litigation without prejudice in the form attached as Exhibit "D" of this Agreement; provided however, that Jefferson Island will retain the right to re-file or reinstate the Litigation after its dismissal by Jefferson Island if, and only if, prior to the Class III brine extraction wells covered by the above-referenced permit applications (or any wells substituted therefore) being brined to completion, (a) there is a challenge to the validity of this Agreement and (b) a final, non-appealable judgment is entered declaring any substantive provision of this Agreement invalid. In exchange for Jefferson Island agreeing to so dismiss the Litigation, the State hereby agrees, (a) not to institute any lawsuit or other legal process to have the Salt Lease declared invalid; (b) that it waives and renounces any claim, defense, or exception of prescription, laches, or any other legal theory which might otherwise bar Jefferson Island's claims and causes of action asserted in the Litigation due to the passage of time and which is or may become available prior to any re-instigation of the Litigation (collectively, the "**Renounced Defenses**"); and (c) to provide to Jefferson Island a formal, written waiver and renunciation of the Renounced Defenses and any and all additional papers, documents or other assurances reasonably necessary to carry out the intent of the Parties concerning the same. The State agrees not to assert the Renounced Defenses once the Litigation is re-instigated. The State's formal, written waiver and renunciation will be made in the form and substance of Exhibit "E" of this Agreement. Upon execution by the Court of the Order of Dismissal without Prejudice, the State agrees to and will execute Exhibit E and thereby expressly waive and renounce the Renounced Defenses with respect to (a) any claim made against the State by Jefferson Island in the Litigation and (b) any claim arising out of the same conduct, transactions, or occurrences set forth in or that could have been set forth by Jefferson Island in the Litigation; provided, however, that the State shall have the right to raise any other defenses thereto whatsoever, other than the Renounced Defenses. By its approval and execution of this Agreement, the State hereby expressly authorizes its legal counsel, including Breazeale, Sachse & Wilson, L.L.P. and Bernie Boudreaux, to execute and make effective the State's waiver and renunciation in the form and substance of Exhibit "E" of this Agreement at the appropriate time.

15. Miscellaneous.

15.1. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Louisiana.

15.2. Venue. Any suit, action or proceeding arising out of or relating to this Agreement shall be instituted only in East Baton Rouge, Parish, Louisiana. Each party irrevocably submits to the exclusive jurisdiction of said courts, waives any objection which it may have now or hereafter to such venue, and waives any other venue to which it may be entitled by virtue of domicile or otherwise.

15.3. Waiver of Jury Trial. **JEFFERSON ISLAND AND THE STATE HEREBY WAIVE THE RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING OF ANY TYPE WHETHER ARISING UNDER CONTRACT, NEGLIGENT OR INTENTIONAL TORT, OR STATUTE, IN WHICH EITHER PARTY OR ANY OF THEIR AFFILIATES, SUCCESSORS OR ASSIGNS ARE PARTIES, AS TO ALL MATTERS AND THINGS ARISING DIRECTLY OR INDIRECTLY OUT OF THIS AGREEMENT, THE JEFFERSON ISLAND FACILITY, AND THE RELATIONS BETWEEN JEFFERSON ISLAND AND THE STATE.**

15.4. Remedy for Breach; Mandatory Cure. If either Party fails to perform any of the covenants or obligations imposed upon it in this Agreement (excluding Sections 5 and 8, and except where such failure is excused due to a Force Majeure Event or any other provision of this Agreement or Applicable Law), then the other Party may, at its option, send written notice specifying the default which has occurred and the remedy or cure sought by such party. If a Party fails to provide such written notice within ninety (90) days after having actual notice of such default, the default is waived. A waiver of a default or failure to require cure of a default shall not constitute a waiver of any subsequent default. The defaulting Party shall have thirty (30) days after its receipt of written notice of its default pursuant to this Section 15.4 in which to cure the alleged default or to undertake the activities necessary to correct the default if the same cannot be completed within the thirty (30) day period. If the defaulting Party fails to cure under this Section, the Party claiming the default may seek to impose liability or a remedy on such defaulting Party under Applicable Law whether in equity or otherwise.

15.5. No Partnership; Independent Contractor; Executory Contract. It is understood and agreed that this Agreement shall not create the relationship of a partnership or association for profit between or among the Parties and that no act done by any Party pursuant to the provisions hereof shall operate to create such a relationship nor shall the provisions of this Agreement be construed as creating such a relationship or render the Parties liable as partners; that an undertakings by Jefferson Island under this Agreement shall be those of an independent contractor; and that this Agreement shall be so construed under an circumstances and conditions. Notwithstanding the foregoing, if, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each Party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter I, Subtitle "A", of the Internal Revenue Code of 1986, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each Party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each Party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be

necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area IS located or any future income tax laws of the United States contain provisions similar to those in Subchapter “K”, Chapter 1, Subtitle “A”, of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is permitted, each Party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such Party states that the income derived by such Party from operations hereunder can be adequately determined without the computation of partnership taxable income. It is also understood and agreed that this Agreement is an executory contract within the meaning of 11 U.S.C. § 365.

15.6. No Estoppel of Title. It is expressly provided in this Agreement that neither this Agreement, nor anything contained in this Agreement, nor any of the data, maps, or exhibits considered in connection herewith, whether attached hereto or not, nor any course of conduct followed by any Party pursuant to this Agreement, shall ever be considered to be or permitted to serve as a basis of estoppel against any party in question of title where title to the Property is in dispute, anything contained in this Agreement to the contrary notwithstanding.

15.7. Release. No later than ninety (90) days after termination of this Agreement, and completion of all actions contemplated by Section 11, Jefferson Island shall execute and record in Iberia Parish, Louisiana, a full release of its rights under this Agreement and the Storage Lease at its sole cost and expense. No later than ninety (90) days after the termination of the Storage Lease, Jefferson Island shall execute and record in Iberia Parish, Louisiana, a full release of its rights under the Storage Lease at its sole cost and expense. Failure to so execute and record a release shall obligate Jefferson Island to pay a liquidated damage assessment of \$100.00 per day, beginning on the ninety-first (91st) day, which shall continue to accrue each day of non-compliance until the release is executed and recorded. Should the State be required to litigate to cause such execution and recordation and/or recover these liquidated damages, and prevail, Jefferson Island shall be liable additionally for all costs and reasonable attorney fees.

15.8. Entire Agreement. This Agreement constitutes the entire agreement and understanding of the Parties with respect to the subject matter. Each of the Parties acknowledges that in entering into this Agreement if has not relied on any oral or written representation, warranty or other assurance (except as provided for or referred to in this Agreement) and waives all rights and remedies which might otherwise be available to it in respect thereof.

15.9. No Third Party Beneficiaries. Nothing in this Agreement, express or implied, is intended to confer upon any person, other than the Parties, and their respective successors and permitted assigns, any rights, remedies or obligations under or by reason of this Agreement.

15.10. Reformation. If any term, covenant, condition, or provision of this Agreement is found by a court of competent jurisdiction to be invalid, void, or unenforceable, the remainder of this Agreement shall remain in full force and effect, and shall in no way be affected, impaired or invalidated thereby.

15.11. Assignment. This Agreement shall extend to and be binding upon the successors, assigns, and successors’ assigns of the Parties; however, it is understood and agreed that no

future assignments of the rights granted under this Agreement shall be effective unless and until such assignment or assignments are first approved by the Mineral Board and same shall be subject to reasonable conditions imposed by the Mineral Board in giving its approval, which approval shall not be unreasonably withheld, conditioned, delayed or denied.

15.12. Warranty of Merchantability. The State warrants to Jefferson Island that this Agreement has been duly and validly executed and delivered by the State to Jefferson Island, and, when entered into, constitutes the legal, valid and binding agreement and obligations of the State enforceable against the State in accordance with the respective terms hereof. Jefferson Island warrants to the State that this Agreement has been duly and validly executed and delivered by Jefferson Island to the State and, when entered into, and approved by its Board, constitutes the legal, valid and binding agreement and obligations of Jefferson Island enforceable against Jefferson Island in accordance with the respective terms hereof.

15.13. Further Assurances. Each Party agrees that it will from time to time and at any reasonable time execute and deliver to the other party other and further instruments, and take such other actions, as the other party may reasonably request to more fully implement and evidence the intent of this Agreement.

15.14. Counterparts. This Agreement may be executed in counterparts and each executed counterpart shall have the same force and effect as the original instrument. If counterparts are executed, the signatures of the Parties to each counterpart maybe combined into and used as a single document.

15.15. Headings. The article and section headings in this Agreement are for convenience of reference only and shall not be deemed to alter or affect the meaning or interpretation of any provisions hereof.

15.16. Exhibits and Attachments. All exhibits and attachments referenced in this Agreement shall be incorporated into this Agreement by such reference and shall be deemed to be an integral part of this Agreement.

15.17. Preparation. This Agreement has been reached as a result of an arm's length negotiation between the Parties. This Agreement was prepared by both Parties with advice of counsel, and not by any Party to the exclusion of the other, and accordingly, should not be construed against either Party by reason of its preparation.

15.18. Authority. Each Party represents and warrants to each and every other Party that the individuals executing this Agreement, and the agreements contemplated by this Agreement, have been duly authorized by their respective corporate principals and that this Agreement and the other documents contemplated by this Agreement, shall be binding on the Parties hereto in accordance with the provisions of such documents.

[[Insert Signature and Notary Blocks]]

Exhibit C
EBIT Calculation - Jefferson Island Storage & Hub
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Numbers are for illustration purposes only.

	2 Cavern Existing	Cavern 3 Mid Year In-Service	Cavern 3 & 4 Full Year In-service	Additional Caverns Off Property	4 Caverns Expiration of Storage Lease
Revenues					
Firm	\$ 20,000	\$ 27,500	\$ 50,000	\$ 80,000	\$ 50,000
Park & Loan	1,000	1,875	4,500	8,000	4,500
3rd Party Transport	1,000	1,000	1,000	1,000	1,000
Fuel Retention (net)	1,500	2,000	3,500	5,500	3,500
Other	-	-	-	-	-
Total Revenue	23,500	32,375	59,000	94,500	59,000
Cost of Sales- Purchases	-	-	-	-	-
Operating Margin	23,500	32,375	59,000	94,500	59,000
Operating Expenses					
O&M and G&A Expenses	5,100	5,475	6,600	8,100	6,600
Depreciation and amortization	2,400	3,650	7,400	11,900	7,400
Capitalized and Distributed	-	-	-	-	-
Allocated Costs	1,000	1,000	1,000	1,000	1,000
Taxes other than income	1,000	1,625	3,500	6,000	3,500
Total Operating Expenses	9,500	11,750	18,500	27,000	18,500
Other income / (expense)	-	-	-	-	-
Earnings before interest & taxes	\$ 14,000	\$ 20,625	\$ 40,500	\$ 67,500	\$ 40,500
Cavern Capacity (Bbls)					
Existing Caverns	9,023,449	9,023,449	9,023,449	9,023,449	9,023,449
Expansion of Existing Caverns	-	-	-	-	-
New Cavern - #3	-	3,778,887	7,557,774	7,557,774	7,557,774
New Cavern - #4	-	-	7,557,774	7,557,774	7,557,774
Off System Caverns	-	-	-	15,115,548	-
Total Cavern Capacity (Bbls)	9,023,449	12,802,336	24,138,997	39,254,545	24,138,997
Cavern Capacity (Bbls)					
Existing Caverns	100.0%	70.5%	37.4%	23.0%	37.4%
Expansion of Existing Caverns	0.0%	0.0%	0.0%	0.0%	0.0%
New Cavern - #3	0.0%	29.5%	31.3%	19.3%	31.3%
New Cavern - #4	0.0%	0.0%	31.3%	19.3%	31.3%
Off Property Caverns	0.0%	0.0%	0.0%	38.5%	0.0%
Total Cavern Capacity (Bbls)	100.0%	100.0%	100.0%	100.0%	100.0%
COMPENSATION CALCULATION					
Earnings before interest & taxes (EBIT)	\$ 14,000	\$ 20,625	\$ 40,500	\$ 67,500	\$ 40,500
Allocation Factor	0.0%	29.5%	62.6%	38.5%	100.0%
EBIT subject to payment	\$ -	\$ 6,088	\$ 25,361	\$ 25,992	\$ 40,500
Payment Percentage	1.18%	1.18%	1.18%	1.18%	1.18%
Compensation payment	\$ -	\$ 72	\$ 299	\$ 307	\$ 478

Notes:

Cavern 3 - Mid year in-service	Assumes Cavern 3 goes in-service mid-year. New Capacity for allocation purposes is equal to: 7.5 mm bbls X .5 (6 months) = 3.7 mm bbls
Cavern 3 & 4 - Full year inservice	Assumes Cavern 3 & 4 are in-service for a full year
4 Caverns - Expiration of Storage Lease	Assumes that upon expiration of the existing storage lease, the existing caverns are included in New Capacity
Additional caverns - Off Property	Assumes additional caverns are placed in-service that are not on the Property. Revenue and Expenses will be allocated to these caverns based on Cavern Capacity