AGENCY AGREEMENT  
  
 This Agency Agreement ("Agency Agreement") dated the 1st day of December,  
1996, is entered into between Public Service Company of North Carolina, Inc., a  
North Carolina corporation ("Principal"), and Sonat Public Service Company  
L.L.C., a Delaware limited liability company ("SPSC").  
  
 WHEREAS, Principal is a party to numerous firm transportation and storage  
contracts providing for transportation and storage of natural gas on its behalf  
by various interstate pipeline companies (including any such contracts to which  
Principal shall be party during the term of this Agency Agreement, collectively  
the "Contracts"); and  
  
 WHEREAS, from time to time Principal has unused firm transportation and/or  
storage capacity under its Contracts ("Unused Capacity") that it desires to  
release temporarily to third parties in accordance with the rules and  
regulations of the Federal Energy Regulatory Commission ("FERC"); and  
  
 WHEREAS, in view of SPSC's expertise in the utilization and marketing of  
interstate pipeline capacity, Principal desires to have SPSC handle the  
marketing of Principal's Unused Capacity on its behalf.  
  
 NOW, THEREFORE, the parties hereby agree as follows:  
  
 1. Subject to the provisions of Section 3 hereof, Principal hereby appoints  
and authorizes SPSC as its sole and exclusive agent for marketing Principal's  
Unused Capacity to third parties in accordance with the FERC's rules and  
regulations and the tariffs of the applicable interstate pipelines. As agent for  
Principal, SPSC shall have the authority to perform all functions necessary to  
carry out its responsibilities hereunder, including but not limited to, the  
authority to post all Unused Capacity for bid on the electronic bulletin board  
of the applicable interstate pipeline and to specify all of the terms applicable  
to the proposed release of capacity.  
  
 In addition to the foregoing, Principal and SPSC expressly recognize and  
agree that SPSC shall have the right to itself acquire from time to time some or  
all of Principal's Unused Capacity and that it shall be entitled to do so on a  
prearranged basis in accordance with the FERC's rules and regulations, provided  
that SPSC is willing to pay Principal an amount for such Unused Capacity that is  
not less than the gross compensation received in connection with the same or  
similar transactions between Principal and non-affiliated parties.  
  
 2. SPSC hereby acknowledges and agrees that Principal shall have the sole  
and exclusive right to determine:  
  
 (a) the time period for the release of any Unused Capacity;  
  
 (b) the location and path of any Unused Capacity to be released;  
  
  
  
  
  
  
 (c) the quantity of Unused Capacity to be released at any time;  
  
 (d) any and all conditions on which such Unused Capacity may be recalled  
 by Principal;  
  
 (e) the methodology to be used to select the successful bidder other than  
 the methodology specified in the applicable pipeline's tariff;  
  
 (f) any applicable rate requirements such as minimum rates, volumetric  
 rates or reservation rates.  
  
 3. SPSC hereby agrees that during the term of this Agency Agreement it will  
undertake to market Principal's Unused Capacity in such a manner as to maximize  
the revenues received by Principal in connection with all Unused Capacity  
released by Principal. Principal hereby agrees that in the event and to the  
extent it chooses to release any of its Unused Capacity, SPSC will have the sole  
and exclusive right to remarket such Unused Capacity pursuant to the terms of  
this Agency Agreement; provided, however, that in the event that Principal has  
the opportunity to utilize its Unused Capacity to make a "secondary market  
transaction" (as defined in the North Carolina Utilities Commission ("NCUC")  
December 22, 1995 "Order Approving Stipulation" in Docket No. G-100, Sub 67), it  
shall promptly advise SPSC of such opportunity and SPSC, as its agent, shall be  
obligated to implement that transaction unless SPSC has an alternative secondary  
market transaction which would utilize the same capacity and which would yield a  
higher rate than the transaction proposed by Principal.  
  
 4. Principal hereby agrees to cooperate with SPSC in developing such  
procedures, to furnish to SPSC such information, and to execute such further  
agreements as may be reasonably necessary in order for SPSC to fulfill its  
obligations as agent under this Agency Agreement. SPSC shall be entitled to rely  
and shall be fully protected in relying on all information provided to it by  
Principal in connection with its responsibilities hereunder.  
  
 5. This Agency Agreement shall become effective as of the date first stated  
above and shall remain in full force and effect for a period of ten years from  
said date. Notwithstanding the foregoing, Principal shall be entitled to  
terminate this Agreement (i) in the event and effective on the date that neither  
PSNC Production Corporation nor any other affiliate of Principal (a "PSNC  
Affiliate") holds a membership interest in SPSC (such date shall be referred to  
herein as the "Withdrawal Date") provided that Principal has given SPSC written  
notice no less than five days prior to the Withdrawal Date of its intent to  
terminate this Agreement on the Withdrawal Date or (ii) in the event that the  
NCUC by final and unappealable order (excluding any order approving a settlement  
voluntarily entered into by Principal other than a settlement voluntarily  
entered into by Principal which was previously discussed with SPSC and which  
both Principal and SPSC previously agreed was in their mutual best interests)  
requires Principal to absorb any of the costs of Principal's Unused Capacity  
rights as a result of any actions or omissions to act by SPSC hereunder, said  
termination to be effective as of the effective date of the NCUC's final  
unappealable order. Principal agrees that it shall use all reasonable efforts to  
oppose any action by the NCUC that would require Principal to absorb any of the  
costs of Principal's Unused Capacity  
  
 -2-  
  
  
  
  
  
  
rights. In the event of any termination of this Agency Agreement in accordance  
with the preceding sentence, any capacity release which is in place as of the  
date of such termination will continue in effect for its original duration  
notwithstanding the termination of this Agency Agreement.  
  
 6. In consideration for SPSC's agreement to act as agent for Principal  
under this Agency Agreement, Principal agrees that it shall pay SPSC each month  
during the term of this Agency Agreement an amount equal to 25% of the net  
compensation (as defined in the NCUC's December 22, 1995 "Order Approving  
Stipulation" in Docket No. G-100, Sub 67) earned by it for all secondary market  
transactions associated with Principal's Unused Capacity rights on interstate  
pipeline companies during such month, calculated in accordance with the "Order  
Approving Stipulation" issued by the North Carolina Utilities Commission in  
Docket No. G-100, Sub 67, on December 22, 1995, provided, however, that in he  
event that the NCUC at any time reduces below 25% percent the percentage of net  
compensation from secondary market transactions that natural gas companies such  
as Principal may retain for their shareholders, then the amount that Principal  
shall be required to pay to SPSC as compensation for its services under this  
Agency Agreement shall be reduced to such percentage of the net compensation  
received by Principal during each month from all secondary market transactions  
associated with Principal's Unused Capacity rights (as calculated above) that is  
equal to the percentage of net compensation from secondary market transactions  
which may be retained by natural gas companies such as Principal for their  
shareholders at such time.  
  
 7. This Agency Agreement shall be governed by and construed in accordance  
with the laws of the State of Delaware, without giving effect to its conflicts  
of laws rules. Each party hereto expressly consents to the non-exclusive  
jurisdiction of the state courts located in the State of Delaware in all  
disputes arising under or related to this Agreement. Each party hereto hereby  
waives any objection it may have to the venue of any action, suit or proceeding  
brought in such courts or the convenience of the forum. Service of process on  
each party in any action arising under or related to this Agreement shall be  
effective if delivered or sent to such party in accordance with Section 9  
hereof.  
  
 8. Principal hereby agrees that SPSC and all of its officers, committee  
members, owners and representatives shall have no liability to Principal for and  
shall, to the fullest extent permitted by applicable law, be indemnified and  
held harmless by Principal from any and all losses, liabilities, damages, costs  
and expenses (including all reasonable attorney's fees and all costs of suit)  
resulting from or arising out of any act or omission to act hereunder unless  
such act or omission to act constitutes gross negligence, willful misconduct or  
bad faith.  
  
 9. All notices, requests, demands, and other communications required or  
permitted to be given or delivered under or by reason of the provisions of this  
Agreement shall be in writing and shall be given by certified or registered  
mail, postage prepaid, or delivered by hand or by nationally recognized air  
courier service, or in the form of a telecopy or telegram, directed to the  
address or telecopy number of such party set forth below:  
  
 -3-  
  
  
  
  
  
  
 If to Principal:  
  
 Public Service Company of North Carolina Inc.  
 000 Xxx Xxxx  
 X.X. Xxx 0000  
 Xxxxxxxx, Xxxxx Xxxxxxxx 00000-0000  
 Attention: Xxxxx Xxxx, Senior Vice President  
 Telecopy Number: (000) 000-0000  
 Telephone Number: (000) 000-0000  
  
 If to SPSC:  
  
 Sonat Public Service Company L.L.C.  
 c/o Sonat Marketing Company L.P.  
 Four Xxxxxxxx Xxxxx  
 Xxxxxxx, Xxxxx 00000  
  
 or  
  
 X.X. Xxx 0000  
 Xxxxxxx, Xxxxx 00000-0000  
 Attention: Xxxx Xxxxxx, Senior Vice President  
 Telecopy Number: (000) 000-0000  
 Telephone Number: (000) 000-0000  
  
Any such notice shall become effective when received by the addressee, provided  
that any notice or communication that is received other than during normal  
business hours of the recipient shall be deemed to have been given at the  
opening of business on the next business day of the recipient. From time to time  
any party hereto may designate a new address or telecopy number for purposes of  
notice hereunder by notice to the other party hereto.  
  
 IN WITNESS WHEREOF, the parties hereto have executed this Agency  
Agreement as of the date hereinabove first stated.  
  
PUBLIC SERVICE COMPANY SONAT PUBLIC SERVICE  
OF NORTH CAROLINA, INC. COMPANY L.L.C.  
  
  
  
By: By:  
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 Name: Name:  
 Title: Title:  
  
  
  
 -4-