

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

BURKESVILLE GAS COMPANY, INC., KEN-GAS)
OF KENTUCKY, INC., AND KEN TURNER)
_____)
) CASE NO. 92-178
ALLEGED VIOLATION OF KRS 278.300)

O R D E R

The Commission has before it Case No. 90-290¹ to investigate the gas supply arrangements of Burkesville Gas Company, Inc. ("Burkesville Gas"), a Kentucky corporation formed in 1990 as a local gas distribution company. That case was established by Order entered October 3, 1990 to investigate whether Ken-Gas Company, Inc. ("Ken-Gas") had an adequate and reliable supply of gas to supply the needs of its customers for the 1990-1991 heating season. Burkesville Gas was made a party to the proceeding by reason of its application in Case No. 90-294² to approve the transfer of the assets of Ken-Gas to Burkesville Gas. By final Order entered in Case No. 90-294 on February 21, 1991, the Commission approved the transfer of the utility assets of Ken-Gas

¹ Case No. 90-290, Investigation to Determine Whether an Adequate Means for Delivery of Gas is Available to Ken-Gas of Kentucky, Inc.

² Case No. 90-294, The Application of Burkesville Gas Company, Inc. for Approval of the Transfer and Sale of Ken-Gas of Kentucky, Inc. and Application of Burkesville Gas Company, Inc. for an Order Authorizing the Creation and Issuance of \$1,300,000.00 of Long Term Instruments of Indebtedness.

to the newly incorporated Burkesville Gas. In the same Order, the Commission approved the application of Burkesville Gas to authorize the creation and issuance of \$1.3 million of long-term instruments of indebtedness to finance the transfer and incidental construction.

The transfer as approved never took place. Furthermore to date, Burkesville has been unable to issue the bonds necessary to finance the sale of the assets of Ken-Gas. Nonetheless, Burkesville has been the entity responding to the Commission's concerns in the pending investigation, Case No. 90-290.

In the course of the Commission's proceeding in Case No. 90-290, a lease purchase agreement, attached hereto and incorporated herein as Exhibit A, was filed into the record by the principles of Burkesville Gas. That lease agreement demonstrates that Ken-Gas of Kentucky, Inc., a Commission-regulated Kentucky corporation, has entered into a capital lease agreement with Burkesville Gas instead of the transfer of assets and the financing arrangements approved by the Commission in Case No. 90-294. The agreement indicates that the utility assets belonging to Ken-Gas have been leased to Burkesville Gas for a term of 191 months (or 15.92 years) commencing with the 25th day of January, 1992.

Burkesville Gas, by virtue of the lease agreement, is now the entity responsible for the day-to-day operation of the gas system used to supply gas to the residents of Burkesville, Kentucky. The president of Burkesville Gas is Ken Turner. Mr. Turner holds 49 percent of the stock in Burkesville Gas; Consolidated Financial

Resources, a Texas corporation of public financiers, holds 51 percent of the stock of Burkesville Gas.

Ken-Gas is a Kentucky corporation which provides gas distribution service and was the entity responsible for the original construction and operation of the Burkesville Gas distribution system. Ken Turner is the president and 51 percent owner of Ken-Gas. In Case No. 90-291 Burkesville Gas represented that the capital lease agreement referred to above was created due to Burkesville Gas's inability to issue the bonds necessary to finance the sale of the assets of Ken-Gas.

The other parties who have entered into the agreement include Kentucky Energy Transmission Corporation ("Kentucky Energy"), a gas transporter who is believed to own, at a minimum, 17 miles of a pipeline used to transport natural gas in the Burkesville Gas system;³ the Bank of Clinton County, which financed the original construction of the Burkesville Gas system and which holds a security interest in the gas distribution system and the Kentucky Energy pipeline used to transport the gas into Burkesville; and Consolidated Financial Resources, a 51 percent shareholder in Burkesville Gas.

Recitals contained in the capital lease disclose that Ken-Gas owes the Small Business Administration ("SBA") \$655,000 plus

³ Ownership or the right to control the remaining five miles of the pipeline that is necessary to move gas in the Burkesville Gas system is disputed and is at issue in Commission Case No. 90-290.

interest. The Bank of Clinton County is the agent for the SBA and also holds a security interest in the Ken-Gas assets. Kentucky Energy, the gas transporter, owes the Bank of Clinton County \$192,400 plus interest and the bank has a security interest in the gas line and whatever profits Kentucky Energy receives for the utilization of that line. The lease agreement provides that Ken-Gas lease all assets used to provide gas service including equipment, plant, tools, and the gas franchise to Burkesville Gas for a period in excess of 15 years and also requires Burkesville Gas to enter into a transportation agreement with Kentucky Energy. The Bank of Clinton County agrees to allow Ken-Gas to lease those assets in which the bank has a security interest in exchange for Burkesville Gas agreeing to pay \$30,000 up front and pay off the indebtedness owed by Kentucky Energy, beginning May of 1994, in payments of \$10,000 a month until the debt is retired. Burkesville Gas, with the Bank of Clinton County's agreement, will thereafter pay whatever amounts are necessary to retire the \$655,000 owed by Ken-Gas on the SBA loan by the year 2008. The agreement provides that all payments made by Burkesville Gas will first be applied to retire Kentucky Energy's obligation to the bank and then to retire Ken-Gas's obligation to the bank. Thus, Burkesville Gas is obligated to retire both notes for two other jurisdictional entities which are both owned and operated by Ken Turner.

A further condition of the lease agreement is the execution of a transportation contract between Burkesville Gas and Kentucky Energy as a gas transporter. That agreement provides that

Burkesville Gas will not only make payments of \$10,000 per month beginning in 1994 on behalf of Kentucky Energy, but that the payment of such sums are independent of the actual transportation charge for any Mcfs of gas that are transported on behalf of Burkesville Gas. Therefore, separate and apart from retiring Kentucky Energy's indebtedness to the Bank of Clinton County, Burkesville Gas shall also pay Kentucky Energy a 40 cent per Mcf transportation charge.

The accounting and reporting requirements for natural gas companies contained in the Uniform System of Accounts ("USoA"), the accounting authority prescribed by this Commission, require that the regulated utility record a capital lease as an asset in Account No. 101.1, "Property Under Capital Leases" and an obligation in Account No. 227, "Obligation Under Capital Leases-Noncurrent." The jurisdictional utility is therefore required by the terms of the USoA to record a long-term obligation on its books. KRS 278.300 requires that a utility obtain Commission authorization before it incurs any evidence of indebtedness or assumes any obligation for which payment exceeds two years. This lease agreement obligates Burkesville Gas for a period of 191 months, a period greater than two years.

Based upon the foregoing, the Commission finds that a prima facie showing has been established that Ken-Gas and Burkesville Gas have violated KRS 278.300 by failing to obtain prior approval of the Commission for authority to issue and assume a long-term obligation or liability with respect to the securities or evidences of indebtedness of any other person. Accordingly, the

Commission finds that Burkesville Gas and Ken-Gas should be required to show cause, if any they can, why they should not be penalized pursuant to KRS 278.990 and show cause why the unauthorized lease agreement and indebtedness thereon shall not be void.

Based upon the fact that the capital lease constitutes a transfer of assets from Ken-Gas to Burkesville Gas, the Commission further finds that a prima facie showing has been established that control of the Ken-Gas has passed to Burkesville Gas under conditions and parameters that differ from those approved by the Commission in its Order of February 21, 1991 in Case No. 90-294 and in violation of KRS 278.020(4) and (5). Burkesville Gas and Ken-Gas should be required to show cause why they should not be penalized pursuant to KRS 278.990 for their failure to comply with the Commission's February 21, 1991 Order in Case No. 90-294 and show cause if any they can why the Commission should not vacate its Order of February 21, 1991 and void the purported transfer and the unauthorized capital lease agreement.

As the holder of 49 percent of the stock in Burkesville Gas and by virtue of his position as president of Ken-Gas and acting president of Kentucky Energy, Ken Turner should be named in his individual capacity and should be required to show cause individually why he should not be penalized pursuant to KRS 278.990 for his failure to comply with the Order of the Commission issued February 21, 1991 in Commission Case No. 90-294 and for procuring, aiding, or abetting in the alleged violations of KRS 278.020 and 278.300.

The Commission further finds that by virtue of its security interest in the gas distribution assets and its capacity as an agent for the SBA, the Bank of Clinton, and, Kentucky Energy as a corporation which Ken Turner controls as acting president and which is the gas transportation utility serving Burkesville Gas, both should be named as parties to this proceeding. Consolidated Financial Resources, as the holder of 51 percent of the outstanding stock of Burkesville Gas, should further be required to appear as a necessary party to this proceeding.

IT IS THEREFORE ORDERED that:


1. Burkesville Gas and Ken-Gas represented by counsel and Ken Turner in his individual capacity shall appear at a hearing scheduled for June 16, 1992 at 10:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky, and show cause if any can be shown why they should not be penalized for the violations of KRS Chapter 278 and the Commission Order as discussed herein and, shall further show cause, if any they can, why the Commission should not void the unauthorized capital lease agreement and purported transfer, the unauthorized indebtedness, and its February 21, 1991 Order in Case No. 90-294.

2. The Bank of Clinton County, Kentucky Energy and Consolidated Financial Resources shall be made parties to this proceeding.

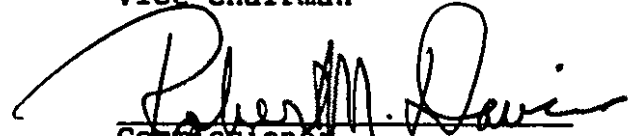
3. Burkesville Gas, Ken-Gas and Ken Turner shall within 20 days of the date of this Order file a written response to the allegations contained herein.

Done at Frankfort, Kentucky, this 1st day of May, 1992.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director, Acting

LEASE PURCHASE AGREEMENT

THIS LEASE PURCHASE AGREEMENT, made and entered into on this the 30 day of Nov, 1992 by and between Ken-Gas of Kentucky, Inc., a Kentucky Corporation, whose address is Route 3, Box 26-A, Albany, Kentucky hereinafter referred to as the LESSOR, and Burkesville Gas Company, Inc., a Kentucky Corporation whose address is 119 Upper River, Burkesville, Kentucky 42717 hereinafter referred to as LESSER and the Bank of Clinton County, whose address is Albany, Kentucky, hereinafter referred to as SECURED PARTY, and Consolidated Financial Resources, Inc., a Texas Corporation, hereinafter referred to as RELEASOR, and Kentucky Energy Transmission, Inc., a Kentucky corporation, whose address is Highway 127 North, Albany, Kentucky 42602, hereinafter referred to as KET;

THAT WHEREAS, the LESSOR, Ken-Gas of Kentucky, Inc. is the owner of a certain parcel of property which is more particularly described as follows, to-wit:

TRACT NO. 1:

Beginning on an "X" carved in the concrete at the Northern right of way of Upper River Street, being a new corner with Capps; thence leaving said right of way, severing the lands of Capps along the West side of the existing building North 41 deg. 26 min. 15 sec. East 69.92 feet to the Northwest corner of the building wall, a new corner with Capps; thence with the Northern wall of the building South 49 deg. 00 min. 38 sec. East 30.12 feet to the Northeast corner of the building, a new corner with Capps; thence along the Eastern wall of said building South 41 deg. 24 min. 57 sec. West 70.19 feet to a "X" carved in the concrete at the Northern right of way of Upper River Street; thence with the Northern right of way of said street North 48 deg. 30 min. 00 sec. West 30.15 feet to the beginning, containing 0.05 acre, by survey. The actual field survey was conducted by J. A. Staton, R.L.S. #2603 dated January 15, 1986.

TRACT NO. 2:

This being the same real estate conveyed to Ken-Gas of Kentucky, Inc. by Deed dated January 16, 1986 from Catherine Brown Capps

and her husband, Roy Fred Capps, Jr., and duly recorded in Deed Book 87 at Page 9 in the Cumberland County Court Clerk's Office.

Beginning on a steel pin at the North East right of way of Upper River Street, a corner common to the corner of Duo Telephone, in Deed Book 64 at Page 363; thence leaving said right of way line, with the line of Duo Telephone, North 36 deg. 15 min. East 125 feet to a steel pin, corner 2, a corner common to Duo Telephone, thence changing direction, with the back line of said telephone lot South 53 deg. East 52.7 feet to a steel pin at the right of way line of Veterans Street, common to Duo Telephone, thence leaving Duo Telephone, with a line common to the right of way of Veterans Street, based on a 20 foot left and right of an established center line, North 36 deg. 15 min. East 52.7 feet to a steel pin in the right of way line of Veterans Street, and a corner to John Groce, in Deed Book 73 at Page 364, thence changing direction, leaving the right of way line, with the line of Groce, Lot #4 and 5 of subdivision, North 53 deg. West 152 feet to a hub of an axle, a corner to the original marker, and a corner common to Groce and Lloyd Brown, thence changing direction, leaving Groce, with a line common to Brown, South 37 deg. 30 min. West 52.7 feet to a steel pin, common to Brown, and continuing with the line, to Brown, South 36 deg. 15 min. West 125 feet to the beginning, containing 0.408 acres. The plat of said real estate is recorded in Deed Book 64 at Page 615 in the Cumberland County Court Clerk's Office.

This being the same property conveyed to Ken-Gas of Kentucky, Inc. by Atlantic Soft Drink Company, Inc. by Deed dated July 6, 1987 and filed of record in Deed Book 89 at Page 464 in the Cumberland County Court Clerk's Office.

THERE IS EXCLUDED, and not considered in the above referred transfer the following described real estate:

Beginning at an iron pin (2 inch pipe) next to the NE R/W of Upper River Street, corner with Duo County Telephone; thence with said NE R/W North 50 deg. 03 min. 03 sec. West 47.03 feet to an iron pin (1/2 inch rebar) in line with the Northwest wall of the Pepsi Cola building; thence North 39 deg. 24 min. 57 sec. East 180.90 feet to an iron pin (1/2 inch rebar) corner with John Groce; thence South 50 deg. 56 min. 47 sec. East 122.04 feet to an iron pin (1 inch pipe) next to the Northwest right of way of Veterans Street; thence with said right of way South 40 deg. 20 min. 40 sec. West 54.53 feet to an iron pin (2 inch pipe), a corner with Duo County Telephone; thence with Duo County Telephone for 2 courses: (1) North 49 deg. 56 min. 21 sec. West 74.17 feet to a post; (2) South 39 deg.

28 min. 50 sec. West 125.18 feet to the beginning, containing 0.284 of an acre, more or less.

This being the same property conveyed by Ken-Gas of Kentucky, Inc. to the City of Burkesville, Kentucky by Deed dated July 13, 1987 and filed of record in Deed Book 89 at Page 468 in the Cumberland County Court Clerk's office.

THAT WHEREAS, KET is the owner of a certain transmission gas line, being approximately 21 miles in length, which currently has been utilized by Ken-Gas of Kentucky, Inc. to provide natural gas to the city of Burkesville distribution system, and in which the LESSOR has agreed to enter into a transportation contract with KET for purposes of utilizing such system to continue to provide a supply of gas, the terms of such transportation agreement being incorporated herein by reference;

THAT WHEREAS, the LESSOR, Ken-Gas of Kentucky, Inc. is the current owner of a certain amount of equipment which has been set forth and attached as Exhibit A to this document, a certain amount of gas plant fixtures which is set forth and attached as Exhibit B to this document, a certain amount of tools which is set forth and attached as Exhibit C to this document, and a certain amount of office furnishings and equipment which is set forth and attached as Exhibit D to this document, and a Franchise Agreement with the City of Burkesville, Kentucky which is designated and denoted as having been issued and authorized under City Ordinance 1985-10 in favor of Ken-Gas of Kentucky, Inc., identified in Exhibit E as well as certain other miscellaneous items such as certain gas agreements with Centran, certain right-of-way easements, gas line easements and all meters, regulators, and gas lines presently in place as it pertains to the Burkesville Gas System as identified in Exhibit F; and

THAT WHEREAS, the LESSOR, Ken-Gas of Kentucky, Inc., is presently indebted to the SECURED PARTY, the Bank of Clinton County and the Small Business Administration, hereinafter referred to as the SEA, in the amount of \$654,909.99, plus

accrued interest, and said SECURED PARTY has a security interest in and to the assets set forth in Exhibits A through F; and

THAT WHEREAS, KET is presently indebted to the SECURED PARTY, the Bank of Clinton County, in the amount of \$192,413.10, plus accrued interest, and the SECURED PARTY has a security interest in and to the transportation line and all profits, rents, and lease payments derived therefrom, of which the LESSEE shall be obligated to pay to KET as transportation costs for the utilization of such transportation line; and

THAT WHEREAS, the LESSOR, Ken-Gas of Kentucky, Inc., does hereby agree to lease the assets set forth and identified hereinabove, including the real estate, equipment, fixtures, and all miscellaneous items of inventory, equipment, right-of-way easements, and otherwise identified hereinabove or identified by Exhibits A through F as annexed hereto to the LESSEE; and KET does further agree to execute that certain separate simultaneous transportation agreement and addendum thereto with the LESSEE; and

THAT WHEREAS, the RELEASOR, Consolidated Financial Resources, Inc., does hereby agree to incorporate the terms of that certain sale purchase agreement entered into on September 24, 1990 as part of this agreement, so as to allow the terms of the option purchase of same to become effectuated; and

THAT WHEREAS, the SECURED PARTY herein agrees to the Lease Agreement between Ken-Gas of Kentucky, Inc. and Burkeville Gas Company, Inc., and further agrees to the transportation agreement and the addendum thereto between KET and Burkeville Gas Company, Inc., subject to the stipulations hereinbelow addressed;

NOW, THEREFORE, for and in consideration of the recitals set forth hereinabove, and the mutual covenants and benefits to be agreed by the parties as set forth hereinabove, and for

Good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the LESSOR, the parties of this agreement agree as follows:

1) The LESSOR does hereby agree to lease unto the LESSEE the real estate, equipment, fixtures, and various other assets set forth in Exhibits A through Exhibit F as so identified hereinabove for a period of 192 months commencing with the day of January, 1992 and continuing thereafter for the period stated herein for as long as said lease remains in full force and effect.

2) The LESSEE shall pay a lease amount in the amount of \$10,000.00 per month, but for the period from January 23, 1992 through May 23, 1994 being paid in advance in the amount of \$30,000.00, payable at such time as the LESSEE has received certain construction loan proceeds from the SECURED PARTY, the Bank of Clinton County, and then thereafter in the amount of \$10,000.00 per month, with the next such payment being due on June 23, 1994, with such payment being applied first to the accrued interest until such time as the accrued interest has been paid in full, and thereafter, the lease payment being equal to that amount which will be applied toward the unpaid principal and interest at the applicable Bank of Clinton County and/or SBA note rate that will be sufficient to pay off the balance of the Bank of Clinton County/SBA loan in full by January 4, 2008, with the Bank and/or SBA notifying the LESSEE as to what the monthly lease payments will change and to what amount, but until such time as notification has been received, the lease payments remaining the amount of \$10,000.00 per month and due and payable on the 23rd day of each month. The LESSOR, Ken-Gas of Kentucky, Inc., has authorized the \$30,000.00 advance lease payments referred to herein to be paid by the LESSEE on behalf of the LESSOR, KKT, directly to

the SECURED PARTY, the Bank of Clinton County, to first apply toward the accrued interest, then the principal of \$192,413.10 note referred to hereinabove. The remaining lease payments of \$10,000.00 per month or any other amount as set forth within this paragraph and/or the proceeds from the option to purchase the assets as designated hereinbelow, shall be paid on behalf of the LESSOR, Ken-Gas of Kentucky, Inc., directly to the Bank of Clinton County and/or the SBA to satisfy the unpaid proceeds of that certain ~~loan~~ ~~in the outstanding amount of \$192,413.10,~~ plus accrued ~~interest~~ ~~with such interest or any modification thereof have been paid in full, and any balance or residue thereof shall be made payable to the LESSOR, Ken-Gas of Kentucky, Inc.~~

3) The SECURED PARTY does hereby covenant and agree with the LESSEE that as long as this Lease Agreement remains in full force and effect, and as long as the LESSEE makes timely monthly lease payments as designated hereinabove on behalf of the LESSOR to the SECURED PARTY, that it shall not foreclose on or accelerate any amounts due and owing by the LESSOR to it under the terms of any loan documents or Financing Statements in which the LESSOR may have otherwise pledged certain assets listed herein as security for loans that remain due and owing. Nothing within this covenant shall prevent the bank and/or the SBA from enforcing the terms of their security agreement against Ken-Gas and/or KET. If for any reason Ken-Gas and/or KET should default under the terms of such loan documents, requiring the Bank and/or SBA to declare Ken-Gas and/or KET to be in default under the terms of such loan documents enforcing their remedies thereunder, including acceleration of all payments under said notes and including regaining lawful possession of the security identified therein, which may include the assets subject to this lease agreement, then in such event the SECURED PARTY and/or the SBA agree that the LESSEE shall have the right of first refusal to continue leasing the assets that are identified herein, which may be foreclosed upon by the SECURED

PARTY and/or the BBA, under the same terms and conditions as set forth in this lease agreement. The LESSEE shall be notified in writing of such an act of default by the Bank and/or BBA and the LESSEE shall exercise its option in writing to the Bank and/or BBA within 30 days thereof.

4). IT IS FURTHER AGREED that KET and the LESSEE have entered into a separate transportation agreement whereby KET agrees to transport a certain quantity of gas through its pipeline on behalf of the LESSEE herein to its end designation for utilization by the LESSEE in furnishing customers for the city of Burkesville with commercial gas. It is further understood and agreed that under the terms of such separate agreement, the LESSEE shall pay KET a certain transportation charge equal to \$.40 cents per MCF, the terms of which are incorporated herein by reference. It is further understood and agreed that the LESSEE shall make that payment on behalf of KET to the Bank of Clinton County, and said bank shall apply same to reduce the indebtedness owed by KET to the Bank of Clinton County on the \$192,413.10 note as said payments are made.

5) The LESSOR does hereby grant unto the LESSEE an option to purchase the real estate described on page two and three and the assets described in A. through F. hereinbelow for the sum of \$840,358.08. This option shall remain in full force and effect throughout the duration of this lease, and may be exercised by the LESSEE by giving written notice to the LESSOR within a time period up to 30 days prior to the expiration date of the lease of its intent to exercise the option for this amount. The option shall extend to the following assets:

A. The two tracts of real estate owned by Ken-Gas of Kentucky, Inc. as set forth as tract numbers 1 and 2 as described hereinabove for the amount of \$65,000.00.

B. All items of equipment set forth in Exhibit A for the sum of \$60,750.00.

C. The gas plant items set forth in Exhibit B for the sum of \$683,488.

D. The tools set forth in Exhibit C for the amount of \$927.50.

E. The office furniture and equipment in Exhibit D for the amount of \$1,594.00.

~~F. The miscellaneous assets set forth in Exhibit E for the amount of \$28,598.58.~~

TOTAL: \$840,358.08

It is agreed and understood that if the LESSEE does in fact exercise said option agreement, it shall receive as a credit toward the total option price set forth hereinabove, the aggregate amount of lease payments heretofore paid on behalf of the LESSOR, Ken-Gas of Kentucky, Inc., in reducing the principal or interest on the Bank of Clinton County and/or the SBA note to the SECURED PARTY, the Bank of Clinton County and/or the SBA. It is further understood and agreed that if the SECURED PARTY, the Bank of Clinton County and/or the SBA, is owed funds on the Bank of Clinton County and/or the SBA note at the time of the exercise of such option, the option proceeds shall first be utilized in satisfying in full the remaining principal and interest balance of the Burkeville Gas-Bank of Clinton County construction note, then to the satisfaction of the Bank of Clinton County-SBA note of Ken-Gas. The KET note shall continue to be paid by the assignment of proceeds from the transportation agreement as referred to hereinabove until paid in full.

It is further agreed that should the LESSEE exercise the option prior to the duration of the lease expiring, that the LESSOR shall provide a good and marketable title in fee simple to its real estate and its equipment, and shall secure all necessary lien releases from such real estate or equipment, including a release of the indebtedness presently owed by the LESSOR to the Bank of Clinton County and/or the SBA. The

LESSOR further covenants and agrees not to allow any lien or other encumbrances affect the title to such property throughout the duration of this lease without the LESSEE'S written consent.

6) This Lease Agreement shall be approved by the appropriate Board of Directors of Ken-Gas of Kentucky, Inc., KET, and Burkesville Gas Company.

7) ~~It is understood and agreed that should Burkesville Gas Company, Inc. exercise the option referred to hereinabove~~ that such assets shall be transferred by Ken-Gas of Kentucky, Inc. by appropriate Deed, Bill of Sale, Assignment, or other written documentation, and at such time the transfer shall take place free and clear of all liens and encumbrances. It is further clearly understood and agreed that until such time as the option to purchase such assets are duly effectuated, this transaction shall be considered as a lease agreement between the parties, and the income generated from such lease agreement shall be fully taxable to Ken-Gas of Kentucky, Inc. The sale proceeds from any asset sale upon the election of any option hereinabove shall likewise create a taxable transfer of corporate assets in favor of Ken-Gas of Kentucky, Inc. Should the option referred to herein be exercised, the terms of that certain sale purchase agreement dated September 24, 1990 between Ken-Gas of Kentucky, Inc. and Consolidated Financial Resources, Inc. and the terms of the sale purchase agreement dated February 7, 1991 between Ken-Gas of Kentucky, Inc. and Burkesville Gas Company shall merge with the terms of this agreement so as to effectuate said transfer.

8) This lease agreement, and the option provisions provided therein, shall in no way effect the ownership of stock interest in Burkesville Gas Company, Inc.

9) The parties of the first part further agree that upon the execution of this lease agreement, Burkesville Gas may have the right to enter into any pipeline lease agreement, sub-lease agreement, or other necessary legal documents as it

pertains to the construction and/or maintenance of an adequate supply of gas to the City of Burkesville, Kentucky under the existing Franchise Agreement.

10) The LESSOR and LESSEE herein acknowledge that they, through their respective Board of Directors, have made full and complete disclosures to all material and relevant factors relating to this Lease Agreement, including the conditions thereof, and any and all liens and indebtedness affecting title to such assets identified therein, and all obligations pertaining to the Franchise Agreement to the City of Burkesville, Kentucky, and that such representations have been relied upon by each party.

11) This lease agreement shall be binding upon the successors, assigns, or duly authorized agents or representatives of the parties hereto.

12) The LESSOR, Ken-Gas of Kentucky, Inc., agrees to indemnify and hold harmless the LESSEE of any previous acts, omissions, or commissions that that it may have undertaken during such period of time as it was the Franchisee for the City of Burkesville as it pertains to the operation and ownership of the natural gas plant referred to hereinabove.

13) The LESSOR, Ken-Gas of Kentucky, Inc., and KET both agree to in no way interfere with, or compete with the LESSEE as it pertains to the distribution of natural gas to the City of Burkesville, Kentucky and surrounding areas during such period of time as Burkesville Gas Company remains the Franchisee for the City of Burkesville, Kentucky.

14) The SECURED PARTY joins in the execution of this document as it pertains to the covenants set forth in its agreement with the LESSEE not to exercise any rights of default or acceleration that it otherwise may have with the LESSOR pertaining to certain loan indebtedness owed by the LESSOR to its institution upon which some, if not all of the assets identified herein have been pledged as security, subject to

the rights of the bank and/or the SEA as identified in Paragraph 3 hereinabove and to further agree to accept the payments in accordance with the schedule set forth hereinabove from the LESSEE on behalf of the LESSOR throughout the duration of this Lease Agreement. The SECURED PARTY has obtained the permission and approval of the Small Business Administration per a letter of January 28, 1992 telefaxed to the bank in approving the terms of this lease agreement as it pertains to their acting as agent for the SEA and receiving payments on behalf of Ken-Gas on the \$654,909.99 bank and/or SEA note referred to hereinabove.

15) Contrary to the date of execution of this lease, it is agreed and stipulated by all parties concerned that the effective date of this lease shall be considered January 25, 1992 and the LESSEE shall take over operations as of February 25, 1992.

16) Each of the LESSOR, the LESSEE, and KET agree to indemnify and hold harmless the SECURED PARTY from any violations of environmental protection laws, either federal or state, as it pertains to the past, present or future utilization of the secured assets in the operation of the Burkesville Gas Distribution System throughout the term of this lease.

This the ___ day of January, 1992.

KEN-GAS OF KENTUCKY, INC.


By: Ken Turner, President

ATTESTED BY:


Secretary

COMMONWEALTH OF KENTUCKY)

COUNTY OF Wayne)

Subscribed and sworn to before me by Ken Turner as President and the Secretary of Ken-Gas of Kentucky, Inc. on this the 20 day of January, 1992.

My commission expires 4-20-94.

Judy Trimble
Notary Public

KENTUCKY ENERGY TRANSMISSION,
INC.

Tom Shirey
By: Acting President

COMMONWEALTH OF KENTUCKY)

COUNTY OF Wayne)

Subscribed and sworn to before me by the Acting President of Kentucky Energy Transmission, Inc. on this the 20 day of January, 1992.

My commission expires 4-20-94.

Judy Trimble
Notary Public

BURKESVILLE GAS COMPANY, INC.

Ken Turner
By: ~~Tom Shirey~~, President
Ken Turner

ATTESTED BY:

[Signature]
Secretary

COMMONWEALTH OF KENTUCKY)

COUNTY OF Wayne)

Subscribed and sworn to before me by Tom Shirey as President and the Secretary of Burkesville Gas Company, Inc. on this the 20 day of January, 1992.

My commission expires on 4-20-94.

Judy Trimble
Notary Public

BANK OF CLINTON COUNTY

Kathy C. Eads
By: Title Acting C.E.O.

COMMONWEALTH OF KENTUCKY)-
COUNTY OF Wayne

Subscribed and sworn to before me by Kathy C. Eads
on behalf of the ~~Bank of Clinton County~~ on this the 30th day of
January, 1992.
My commission expires 6-20-94

Judy Joseph
Notary Public

EXHIBIT A

Equipment

QUANTITY	DESCRIPTION	ESTIMATED MARKET VALUE
1	Gasoline Generator Model #2536DV	\$400.00
1	Pinchoff Equipment Serial #PR3522487	660.00
1	8800 Co/Combustible Gas Detector with Recharger 8803A	345.00
1	Mobile Self-Contained Air Compressor	450.00
	Fusing equipment:	4,500.00
1	4-inch Butt Fusing Machine Serial #55700065	
2	4-inch Butt Fusing Iron Serial #556-0828; Serial #556-1424	
2	2" Repair Coupling 2957-52-1017-00	
1	55700065 4" Butt	
1	Set of Rigid Pipe Dies	
2	Sets 4-inch Saddle Iron	
1	Set 2-inch Saddle Iron	
1	2-inch Transition Fitting Serial #4891358	
1	3/4 Transition Fitting Serial #4883964	
1	4-inch Transition Fitting Serial #3361525	
1	ITT Barton Gas Measurement Serial #2422381618	800.00
1	Ford F-100 F17YUT66773 Custom Model 74 with Communications Radio	2,500.00
1	Ford F-100 2FTCFIDY4DA23657 Model 83 with Communications Radio	5,500.00
1	1989 John Deere 210-C Backhoe Serial #T0210CA753136	34,000.00
1	1984 Wheeled Case Trencher Serial #S42B5720	6,000.00
1	General Electric Two-Way Radio Base Equipment Serial #7125236	4,545.00
	TOTAL	\$59,700.00

EXHIBIT B**Gas Plant in Service**

QUANTITY	DESCRIPTION	VALUE
16,040 Feet	6" Line @ 10.00 ea	\$160,400.00
24,450 Feet	4" Line @ 8.00 ea	\$195,600.00
33,575 Feet	2" Line @ 6.00 ea	201,450.00
14,100 Feet	3/4" Line (Service Lines) @ 5.00 ea	70,500.00
1	Custody Transfer Meter with Pressure Reducing Regulators	14,588.00
8	Sectionalizing Valves	Included in Line Prices
86	Model 250 Meters @ 85.00 ea	7,310.00
9	Model 750 Meters @ 200.00 ea	1,800.00
6	Model 5000 Meters @ 3,500.00 ea	21,000.00
141	Taps	Included in Line Prices
141	Risers	Included in Line Prices
101	Regulators	Included in Line Prices
1	River Crossing	10,840.00
TOTAL		\$683,488.00

EXHIBIT C**Tools**

QUANTITY	DESCRIPTION	50% OF REPLACEMENT VALUE
1	Weed Eater-Gasoline Serial #160516690	\$60.00
1	XR-70 Weed Eater-Gasoline Serial #4073512B	60.00
1	5-Gallon Bucket Unitrac-Hydraulic Part #813	25.00
1	Post Hole Digger	15.00
1	Roll of Arnold Trimmer Line WLC-165	3.00
1	HWI Hand Saw 317847	40.00
2	12" Crescent Wrench	10.00
1	8" Crescent Wrench	6.00
1	6" Crescent Wrench	5.00
1	Easco Nova 14-Piece Socket Set	26.00
1	Rigid Sawsall	60.00
1	3/8" Skill Drill	25.00
1	1/2" Skill Drill	50.00
1	Aluminum Extension Ladder p/w 49333-01	90.00
1	Heavy Duty Electric Cord 100 Ft	15.00
1	Air Tank	26.50
3	Shovels	30.00
2	Rakes	20.00
1	Spade	10.00
1	Marker Driver	50.00
1	15 Ft Electric Cord	10.00
21	Pipeline Marker	21.00
1	Triple Dry Chemical Fire Extinguisher Model #TCP-20G HW 500724	20.00
1	Snap-it Digital Multi-Meter E14945	200.00
2	G-89 Ametem U.S. Gauge Spec #45502	50.00
TOTAL		\$927.50

EXHIBIT D**Office Furniture and Fixtures**

QUANTITY	DESCRIPTION	ESTIMATED VALUE
6	Chairs	\$120.00
1	GTE Touchtone Telephone	25.00
1	Sharp Calculator EL-2192	55.00
1	Wood Desk	250.00
1	Metal Wood Top Desk	175.00
1	Metal Typewriter Table	40.00
1	IBM Electronic Typewriter	350.00
1	Two-Drawer Filing Cabinet	50.00
1	Four-Drawer Filing Cabinet	100.00
1	Two-Drawer Index Filing Cabinet	25.00
2	Deluxe Tape Dispensers C-40	8.00
2	Swingline Staplers	18.00
1	Texas Instruments Electronic Calculator TI-5130	55.00
1	Hunt Boston Electric Pencil Sharpener Serial #502258	35.00
1	Ray-O-Vac Rough Neck Flashlight	3.00
1	Spectra Phone EP-9	40.00
1	GTE Phone EP-5	40.00
1	Drafting Board	125.00
1	Wood Shelf	35.00
1	Coffee Table	45.00
	TOTAL	\$1,594.00

City of BURKESVILLE

P.O. Box 177
Burkesville, Kentucky 42717

502-864-4141
TDD: 1-800-247-2510

January 16, 1992

RESOLUTION

NUMBER 1992-1

**RESOLUTION CONSENTING TO ASSIGNMENT OF NATURAL
GAS FRANCHISE FROM KEN-GAS OF KENTUCKY, INC.
TO BURKESVILLE GAS COMPANY, INC.**

WHEREAS, Ken-Gas of Kentucky, Inc. was the successful bidder and was awarded a natural gas franchise created by City Ordinance Number 1985-10; and

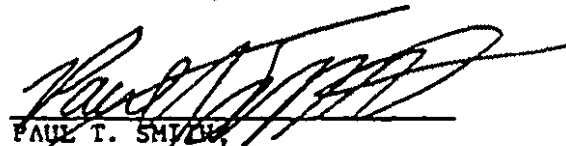
WHEREAS, Burkesville Gas Company, Inc. has entered into a lease agreement whereby it will lease all of the assets of Ken-Gas of Kentucky, Inc. necessary to comprise such a natural gas franchise system, with an option to purchase such assets; and

WHEREAS, by Resolution Number 1991-2 dated April 11, 1991, the City Council of the City of Burkesville having approved of the assignment of the natural gas franchise from Ken-Gas of Kentucky, Inc. to Burkesville Gas Company, Inc., but having failed to omit from said resolution the necessary language in Section 12 of City Ordinance Number 1985-10 that the City was rejecting the right of first refusal to purchase the system from Ken-Gas of Kentucky, Inc. and Burkesville Gas Company, Inc. and Burkesville Gas Company having requested that the City Council members adopt such language as part of the amended resolution;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF BURKESVILLE, KENTUCKY THAT:

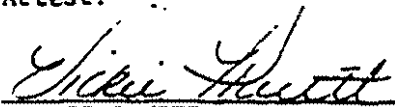
The City Council of the City of Burkesville does hereby amend Resolution Number 1991-2 to reflect that it has rejected its right of first refusal to purchase the gas distribution system and franchise from Ken-Gas of Kentucky, Inc. in accordance with Section 12 of City Ordinance Number 1985-10, and by doing so, has likewise approved of the transfer of such assets and the franchise agreement itself from Ken-Gas of Kentucky, Inc. to Burkesville Gas Company, Inc. under the terms of the lease agreement referred to hereinabove.

Adopted by the Burkesville City Council this 16th day January, 1992.



PAUL T. SMITH,
Mayor

Attest:



VICKIE PRUITT, City Clerk

City of BURKESVILLE

P.O. Box 177
Burkesville, Kentucky 42717
864-4141

April 11, 1991

RESOLUTION

NUMBER 1991-2

RESOLUTION CONSENTING TO THE ASSIGNMENT OF THE NATURAL GAS FRANCHISE FROM KEN- GAS OF KENTUCKY, INC. TO BURKESVILLE GAS COMPANY, INC.

WHEREAS, Ken-Gas of Kentucky, Inc. was the successful bidder and was awarded a natural gas franchise created by City Ordinance Number 1985-10, and

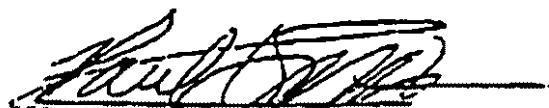
WHEREAS, Burkesville Gas Company, Inc. has or is now authorized to acquire all of the assets of Ken-Gas of Kentucky, Inc., and,

WHEREAS, the Public Service Commission of the Commonwealth of Kentucky, which is the primary regulatory agency in Kentucky for all utilities, has approved this transfer of assets, and has further approved the creating and issuance of \$1,300,000.00 in long term bonds by Burkesville Gas Company, Inc., which funds are calculated to provide financial means of providing extended and more complete natural gas services to the City of Burkesville and its residents, and,

WHEREAS, the City Council of the City of Burkesville having concluded that the request for the assignment of the natural gas franchise to Burkesville Gas Company, Inc. meets all legal requirements and is in the apparent best interest of the future welfare of the City of Burkesville and its residents who desire and need to use natural gas, consent is hereby granted, and the Assignee, Burkesville Gas Company, Inc. shall within thirty (30) days hereafter file with the Clerk of the City of Burkesville evidence that the transfer of all assets has been legally concluded and that the assignee, by appropriate corporate resolution, has accepted the assignment and covenants to fully comply with all of the terms and conditions of the City's natural gas ordinance approved for assignment, the same being City Ordinance 1985-10.

Approved by the City Council of the City of Burkesville, Kentucky this 11th day of April, 1991.

Attest:


PAUL T. MILLER,
Mayor

City of Burkesville

P.O. Box 177
Burkesville, Kentucky 42717
864-4141

AWARD OF FRANCHISE

WHEREAS, the City of Burkesville, Kentucky has by enactment of City Ordinance Number 1985-10 established a franchise for the distribution and sale of natural gas within the corporate limits of Burkesville, Kentucky and

WHEREAS, said franchise was advertised for bids, and

WHEREAS, Three bids were received and opened at the regular meeting of the Burkesville City Council on September 19, 1985, bids being as follows:


<u>Bidder</u>	<u>Amount of Bid</u>
Ken-Gas of Kentucky, Inc. Rt. 3 Box 26A Albany, Kentucky 42602	\$2,100
Burkesville Gas Utility Company P. O. Box 655 Albany, Kentucky 42602	\$1,000
Papineau Construction Oil and Gas Exploration Company Rt. 5 Box 37A Bow, Kentucky 42714	\$100

and

WHEREAS, the Burkesville City Council after examination of each bid and due deliberation voted to award said franchise to Ken-Gas of Kentucky, Incorporated by virtue of its action taken on Thursday, September 19, 1985 at the regular council meeting.

THEREFORE, BE IT KNOWN BY THESE PRESENTS, that Ken-Gas of Kentucky, Incorporated, of Albany, Kentucky is awarded the franchise for the distribution and sale of natural gas within the corporate limits of the City of Burkesville, Kentucky, pursuant to the terms of Burkesville City Ordinance Number 1985-10.

Given under my hand as Mayor of the City of **Burkesville, Kentucky** on this
the 20th. day of September, 1985.


PAUL T. SMITH, Mayor

Attest:


VICKIE PRUITT, City Clerk

City of Burkesville

P.O. Box 177
Burkesville, Kentucky 42717
866-4141

CITY ORDINANCE

NUMBER 1985-10

AN ORDINANCE CREATING A FRANCHISE FOR THE CONSTRUCTION, MAINTENANCE AND OPERATION OF A NATURAL GAS SYSTEM IN THE CITY OF BURKESVILLE, KENTUCKY FOR THE FURNISHING AND SELLING OF NATURAL GAS BY MEANS OF SAID FACILITIES AND PROVIDING FOR THE SALE OF SAID FRANCHISE IN THE CITY OF BURKESVILLE, KENTUCKY

WHEREAS, the City of Burkesville, Kentucky is authorized by the Constitution of the Commonwealth of Kentucky to establish a franchise within the City of Burkesville, Kentucky for the construction and maintenance of a system for selling natural gas within the city for the use and enjoyment of its citizens; and,

WHEREAS, the City of Burkesville, Kentucky wishes to establish certain guidelines for the operation of a natural gas system for the use and enjoyment of the people of the City of Burkesville.

NOW THEREFORE, BE IT ORDAINED BY THE CITY OF BURKESVILLE, KENTUCKY that,

Section 1. That there is hereby created a franchise for installing, laying and maintaining gas pipes and other necessary apparatus for the transmission, distribution and sale of natural gas together with all appurtenant facilities and equipment in, along, under and across the public ways, roads, streets, alleys and other public places in the City of Burkesville, Kentucky, and for constructing the necessary conduits and manholes for the installation of said pipes, facilities and equipment, and for selling natural gas by means of said facilities, and such gas may be conveyed through the City of Burkesville, and to any portion of Cumberland County and to any other town or county.

Section 2. The person, firm or corporation which shall become the purchaser of this franchise, or any successor or assignee thereof, shall for brevity hereinafter be spoken of as the "Company" herein, and the public ways, roads, streets, alleys and other public places of the City of Burkesville, Kentucky shall for brevity hereinafter be spoken of as the "streets".

Section 3. The Company awarded this franchise, its legal representatives, successors and assigns, are hereby subject to the conditions hereinafter contained, authorized and empowered to acquire, purchase, construct, maintain, and operate in and through this city a system for the generation, distribution and transmission of natural gas from points either within or without the corporate limits of this city, to this city and the inhabitants thereof, and from and through this city to persons, corporations, and municipalities beyond the limits thereof, and for the sale of same for light, heat, power and other purposes; to erect and maintain gas mains, pipes and other apparatus necessary or convenient for the operation of said system in, upon, across and along each and all of the streets, alleys and public places within the present and future corporate limits of this city; to have and hold as by law authorized, any and all property, easements and other rights necessary or convenient for said purpose, said property, easements and other rights to be acquired by the Company at its own expense; to use any and all such streets, alleys and public places while constructing or operating said natural gas system or works; and to cross any and all streets and streams in this city for the purpose of constructing, maintaining or extending such pipes, and other apparatus as may be necessary or convenient for the proper distribution of natural gas in and through this city. If after any pipe or other apparatus has once been erected the City Council shall order the removal of said gas mains, pipes or apparatus to another location, the City shall pay the costs of making such relocation unless due to widening, regrading or reconstruction of the street or highway, in which case the Company will relocate at its expense. The Company shall also have the right to use the streets with its service and maintenance vehicles and equipment in furtherance of this franchise. Before beginning the construction of any new line of pipes, mains or appurtenances under this franchise, the Company shall prepare a plat showing the construction of the work to be done and a brief description showing the manner in which it is to be done, which plan and specifications shall be presented to the City Council for its approval, and shall not proceed with such construction until approval is granted. Such approval, however,

shall not be unreasonably denied, withheld or delayed. After the work is completed the City Council shall have the right to examine said work and should it find that the work has not been done in accordance with the plans and specifications approved by the City, the Company shall at its own expense make such changes as will cause the work to conform to the plans and specifications approved by the City. The work shall be done in a workmanlike manner and so as not to unnecessarily interfere with the public use of any said streets. Wherever the surface of any street is opened it must be restored to as good a condition as it was prior to the opening thereof.

Section 4. The Company shall indemnify, save and hold harmless the City from any and all damages, judgments, decrees, costs and expenses which the City may legally suffer or incur or which may be legally obtained against the City for or by reason of the use and occupation of any streets in the city by the Company, pursuant to the terms of this franchise or legally resulting from the exercise by the Company of any of the privileges herein granted; and if any claim shall be made or suit brought against the City for damages alleged to have been sustained by reason of the occupation of any street or the exercise of any privileges herein granted, by the Company, the City shall immediately notify the company in writing thereof and the Company is hereby given the right and privilege to defend or assist in defending such suit in the name of the City.

Section 5. At all times during the term of the franchise the Company will at its own expense maintain in force general comprehensive liability insurance with an insurance company and the policy approved by the Mayor. The coverage represented by such policy shall be for the protection of the City, its elected officials, agents, members of boards or commissions, and employees against liability for loss or damages for bodily injury, death, and property damage by the activities of the Company under the franchise. Minimum liability limits under the policy are to be ONE MILLION (\$1,000,000.00) DOLLARS, for personal injury or death, and TWO HUNDRED AND FIFTY THOUSAND (\$250,000.00) DOLLARS for damage to property resulting from any one occurrence. Additional public agencies and their personnel shall be added as insured, subject to the same terms and conditions, at the request of the City.

Section 6. The Company may furnish natural gas for light, heat, power and any other lawful purpose to any person or persons, company or entity residing along or near the aforesaid streets, and may make such lawful contracts for the use thereof as may be agreed upon between the Company and such person or persons, company or entity.

Section 7. The Company shall extend its natural gas mains, pipes and equipment and install additional equipment whenever it is assured of deriving additional business therefrom and receive a reasonable return upon the investment required to install such extension.

Section 8. The Company shall have the right to make and enforce reasonable rules and regulations necessary for the proper conduct of its business and protection of its property, subject to all local, state and federal laws and regulations.

Section 9. The Company shall have the right to charge reasonable rates for natural gas supplied within the city and rates that are subject to regulation by the Public Service Commission of Kentucky, or any other appropriate local, state and/or federal agency.

Section 10. This franchise and all rights and privileges granted hereunder shall be in full force and effect for a period of twenty (20) years from and after the date when this franchise is granted to the Company, subject to the Company's compliance with the provisions of this franchise.

Section 11. The franchise may be forfeited, at the option of the City, upon failure or refusal by Company to honor the terms and conditions set forth herein. Forfeiture may be exercised by written notice to Company of failure to honor the terms and conditions hereof, followed by Company's refusal to eliminate or correct such failure or violation within sixty (60) days.

Section 12. In the event that the Company desires to sell the system that it establishes for the distribution of natural gas within the City, the City shall have the right of first refusal to purchase the system from the Company at a price to be agreed upon between the City and the Company. In the event that no price can be agreed upon between the City and the Company, the parties may provide for a method of determining a reasonable price for the system, including but not limited to, mediation or arbitration.

Section 13. The Company shall comply with all local, state and federal laws and regulations in constructing and operating the natural gas system herein, including but not limited to, compliance with the rules and regulations of the Public Service Commission of the Commonwealth of Kentucky or any other appropriate local, state and/or federal agency.

Section 14. In the event that the City should enact a utility tax, user fee or similar charge to be levied upon gas

purchasers during the term of this franchise, the Company shall add said charge to its monthly bills, collect same for the City and deliver the collections monthly to the City, all at no cost to the City.

Section 15. This franchise may be transferred or assigned by the Company only with the written prior consent of the City and subject to the City's right of first refusal to purchase said franchise as set forth herein above. It is further understood that the word "company" whenever it appears herein shall include and apply to all the successors and/or assigns of the Company.

Section 16. The City shall receive from the Company as consideration for the granting of this franchise and the continuing enjoyment thereof, an annual franchise fee of 1-1/2% of all gross receipts received by the Company during a calendar year. Such fee shall be paid quarterly, and the payment thereof shall be due on or before the end of each period of thirty (30) days succeeding the close of each quarter of a calendar year during which the franchise is in effect. Such payment shall be accompanied by a statement duly verified before a Notary Public showing in detail the total gross receipts received by Company during the preceding calendar quarter. Company shall at all times keep and maintain a full, true and correct accounting of all the gross receipts and income arising out of operations under the franchise, and books of accounts and all other records shall at all reasonable times be open to inspection and examination within the City by the Mayor and his/her representatives. City reserves the right to audit and recompute any and all amounts paid hereunder, and no acceptance of any payment shall be construed as a release or as an accord and satisfaction of any claim City may have for further or additional sums payable under the franchise.

Section 17. The Company shall start construction of a natural gas system within ninety (90) days from the date of the award of this franchise and the Company shall make reports upon its progress in constructing the natural gas system to the City, every ninety days until the system is in operation, operation being that natural gas is supplied to customers within the city, said reports for the purpose of informing the City that the Company is making reasonable progress toward the implementation of the system and for the City to determine whether the franchise should be revoked by reason of the failure of the Company to make reasonable progress toward implementation of the system, as decided by the City. Company shall within ten days from the acceptance of its bid by the City, deposit with the City a TEN THOUSAND (\$10,000.00) DOLLAR performance deposit to be held in escrow by the City pending a showing of reasonable progress

toward implementation of the system. Upon a showing of such progress, the City may refund said deposit at any time following the expiration of ninety (90) days from the franchise acceptance, but not later than 180 days from said date. On the failure of Company to show reasonable progress towards implementation of the system within 180 days from the franchise date, the rights and authority herein granted shall cease, and the security deposited with City shall be forfeited to City without action by City; provided however, that the City Council may extend the time within which services are to be commenced as it may deem just and equitable. Following the implementation of the operation of the system the Company shall make annual reports to the City concerning the operation of the natural gas system and the financial condition of the Company at the end of each fiscal year. Within two years from the award of the franchise to the Company, the Company shall further make available natural gas service to seventy-five percent (75%) of the potential customers within the city of Burkesville and submit unto the City a report substantiating said availability of service, for the purpose of informing the City that the Company is making reasonable progress to provide service to all potential customers within the city and for the City to determine whether the franchise should be revoked by reason of the failure of the company to make reasonable progress in offering services to all potential customers within the city.

Section 18. The terms of this ordinance granting this franchise are contractual and binding according to its terms, on the City and the Company.

Section 19. Provisions of any other ordinance that are inconsistent with this franchise are and shall be ineffective with respect to the Company acquiring this franchise.

Section 20. It shall be the duty of the Clerk of the City as soon as practicable after the ratification of this ordinance to advertise the sale of this franchise once a week for two successive weeks in "The Cumberland County News" so that the final publication shall appear not less than seven days before the day on which the sale shall occur nor more than 21 days before the day of the sale, said sale to occur on September 19, 1985, at the hour of 7:00 P.M., local time. Said notice and newspaper advertisement shall state when the Clerk shall receive the bids for the sale of said franchise by sealed bid, giving the time and place of opening of said bids. All bids shall be for a period of ten (10) days following the date of the opening. Said advertisement shall reserve unto the City the right to reject any and all bids submitted. The newspaper publication shall describe


the franchise to be sold and state that a copy thereof is available for inspection at City Hall. The City shall sell said franchise in accordance with said notice and advertisement and the City may accept that bid which in its judgment is the highest and best bid or the City may reject any and all bids submitted. No bid of less than \$100.00 shall be accepted. The bidder to whom said franchise shall be awarded shall within ten (10) days after the acceptance of its bid by the City Council of the City of Burkesville pay the amount of the bid to the City of Burkesville. No permit fee or other additional charge, except occupational license fee, shall be imposed on the Company.

Section 21. As additional consideration for the franchise, Company shall allow City a discount of 30% on all natural gas used for heating and operating any municipal building. Such discount shall be applied to the rates that would otherwise be charged for nonresidential service of similar extent.

Section 22. The franchise is granted pursuant to the laws of the State of Kentucky relating to the granting of such rights and privileges by municipal corporations. If any article, section, sentence, etc., of this ordinance is for any reason held illegal, invalid or unconstitutional, such invalidity shall not affect the validity of the ordinance or any of the remaining portions. The invalidity of any portion of this ordinance shall not abate, reduce, or otherwise affect the consideration or other obligation required of grantee.

Section 23. This ordinance shall become effective upon passage, approval and publication as required by law.

Enacted this 16th day of August, 1985.


PAUL T. SMITH, Mayor
City of Burkesville, Kentucky

ATTEST:


VICKIE PRUITT,
City Clerk

EXHIBIT F

Miscellaneous

DESCRIPTION

Franchise

Tandy Computer, Monitor and Printer

Other

TOTAL

\$29,648.58

TRANSPORTATION AGREEMENT

This Agreement, made and entered into this twenty-third day of December, 1991, by and between Kentucky Energy Transmission, Inc., a Kentucky corporation (herein called "KET") and Burkesville Gas Company, Inc. (herein called "BGC"),

W I T N E S S E T H:

WHEREAS,

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, the parties do covenant and agree as follows:

DEFINITIONS

The following definitions shall apply hereunder:

Day. The term "day" shall mean a period of time beginning at 8:00 a.m., local time in Cumberland County, Kentucky, on each calendar day and ending at 8:00 a.m., local time in Cumberland County, Kentucky, on the next succeeding calendar day.

Month. The term "month" shall mean a period of time beginning at 8:00 a.m. on the first day of a calendar month and ending at 8:00 a.m., on the next succeeding calendar month

Contract Year. The term "contract year" shall mean each period of twelve (12) consecutive months during the term hereof commencing at 8:00 a.m. on the first day of the month next following the first delivery of gas hereunder or any anniversary of such day during the term hereof.

MCF. The term "MCF" shall mean one thousand cubic feet of gas measured at a base temperature of sixty degrees Fahrenheit (60 degrees F), and at a pressure base of fourteen and sixty-five hundredths (14.65) psia and corrected for deviation from ideal gas behavior.

Gas. The term "gas" shall mean natural gas as produced from wells classified as gas wells or oil wells.

BTU. The term "BTU" shall mean British Thermal Unit.

MMBTU. The term "MMBTU" shall mean no less than one million (1,000,000) British Thermal Units.

Psig. The term "psig" shall mean pounds per square inch gauge.

Psia. The term "psia" shall mean pounds per square inch absolute.

ARTICLE I

SCOPE OF AGREEMENT

Subject to the terms, conditions and limitations hereof, KET agrees to receive from any third party source on the account of BGC or for the account of BGC for transportation quantities of natural gas tendered on behalf of BGC on any day at the Points of Receipt; provided however, that any third party on behalf of BGC shall not tender, without the prior consent of KET, at any Point of Receipt on any day a quantity of natural gas in excess of the applicable Maximum Daily Receipt Obligation for such Point of Receipt and provided further that no third party on behalf of BGC shall not tender at all Points of Receipt on any day or in any year a cumulative quantity of natural gas in excess of the following quantities of natural gas plus Applicable Shrinkage:

Maximum Daily Transportation Quantity (MDTQ) 1,000 mcf
Annual Transportation Quantity (ATQ) 100,000 mcf

KET agrees to transport and deliver to or for the account of BGC at the Point(s) of Delivery and BGC agrees to accept or cause acceptance of delivery of the Equivalent Quantity received by KET on any day; provided however, KET shall not be obligated to deliver at any Point of Delivery on any day a quantity of natural gas in excess of the applicable Maximum Daily Delivery Obligation.

A. Quality. It is BGC's sole responsibility and expense to deliver gas to be transported under the terms of this Agreement conforming to the quality specifications of BGC's end users, provided, however, that such gas shall at all times conform to the following minimum specifications at the Point(s) of Delivery:

- (i) The gas shall be commercially free from dust, gum, gum-forming constituents, gasoline, free water and other liquids and solids which may become separated from the gas.
- (ii) The gas shall not at any time have an oxygen content in excess of one percent (1%) by volume and KET shall make every reasonable effort to keep the gas free of oxygen.
- (iii) The gas shall not contain more than one (1) grain of hydrogen sulphide per one hundred (100) cubic feet.
- (iv) The gas shall not contain more than twenty (20) grains of total sulphur (including the sulphur in any hydrogen sulphide and mercaptans) per one hundred (100) cubic feet.
- (v) The gas shall not at any time have a carbon dioxide content in excess of two percent (2%) by volume.
- (vi) The gas shall have a total heating value per cubic foot of not less than nine hundred fifty (950) British thermal units.
- (vii) The water content of the gas shall not be more than seven (7) pounds per one million (1,000,000) cubic feet.
- (viii) KET agrees to odorize gas in proper amounts and frequencies at no cost to BGC.

B. Metering Equipment and Testing.

(i) The metering facilities to measure the volumes of gas delivered at the Point(s) of Delivery shall be owned by KET and maintained and operated by KET or its designee. The metering facilities to measure the volumes of gas delivered at the Point of Redelivery shall be owned, maintained and operated by BGC. KET may, however, install and maintain such check meters and related facilities as it deems necessary immediately upstream from the Point of Redelivery.

(ii) Orifice meters installed in such measuring stations shall be operated in accordance with the American National Standard Orifice Metering of Natural Gas Publication ANSI/API 2530, and any subsequent modification and amendment thereof and shall include the use of flange connections, and where necessary, straightening vanes and pulsation dampening equipment.

(iii) The parties shall have the right to have representatives present at the time of any installing, reading, cleaning, changing, repairing, inspecting, testing, calibrating, or adjusting done in connection with the other's measuring equipment used in measuring or checking the measurement of deliveries of gas under this Agreement. The records from such measuring equipment shall remain the property of the party operating the equipment, but upon request each party will submit to the other its records and charts, together with calculations therefrom, for inspection and verification, subject to return within ten (10) days after receipt thereof.

(iv) The accuracy of measuring equipment at the Point(s) of Delivery shall be verified by KET at reasonable intervals and if so requested, in the presence of representatives of BGC, but KET shall not be required to verify the accuracy of such equipment more frequently than once in any thirty (30) day period. In the event BGC desires a special test of any measuring equipment, 24-hour advance notification shall be given KET and the parties shall cooperate to secure a prompt verification of the accuracy of such equipment. The expense of any such special test, if requested, shall be borne by BGC if the measuring equipment tested is found to be in error by not more than two (2) percent. If, upon test, any measuring equipment, including calorimeters, is found to be in error by not more than two (2) percent, previous records of such equipment shall be considered accurate in computing deliveries of gas, but such equipment shall be adjusted at once to record accurately.

If, upon test, any measuring equipment shall be found to be inaccurate by an amount exceeding two (2) percent, at a recording corresponding to the average hourly rate of flow for the period since the last preceding test, then any previous recording of such equipment shall be corrected to zero (0) error for any period which is known definitely; but in case the period is not known or agreed upon, such correction shall be for a period extending over one-half (1/2) of the time elapsed

since the last test, not exceeding a correction period of sixteen (16) days.

(v) In the event a meter is out of service, or recording inaccurately by an amount exceeding two (2) percent, the volume of gas delivered shall be estimated as follows:

1. By using the registration of any check meter or meters, if installed and accurately registering; or in the absence of (1), then,

2. By correcting the error if the percentage of error is ascertainable by calibration, tests, or mathematical calculation; or, in the absence of both (1) and (2), then,

3. By estimating the quantity based upon deliveries during periods under similar conditions when the meter was registering accurately.

(vi) KET shall retain and preserve for a period of at least two (2) years all test data, charts and other similar records.

(vii) KET's reading of official meter charts shall be deemed correct unless such readings differ by more than one (1) percent from readings made by BGC or BGC's agents in connection with a scheduled audit of such charts. If BGC does not concur with KET's reading of official meter charts, BGC shall notify KET whereupon KET shall be afforded an opportunity during thirty (30) days to reread such charts. If the readings of such charts remain disputed, the parties shall make a joint reading of the official meter charts which shall be final as to the quantity so delivered during the period covered by the subject charts.

C. Measurements. The measurements of the quantity and quality of all gas delivered at the Delivery Point(s) hereunder shall be conducted in accordance with the following:

(i) Unit of Volume: The unit of volume for measurement shall be one (1) cubic foot of gas at a temperature base of sixty (60) degrees Fahrenheit and at a pressure base of fourteen and sixty-five hundredths (14.65) psia.

(ii) Volume Measurement: The volume of gas delivered shall be measured by orifice meter installed and operated as prescribed under the provisions of American National Standard Orifice Metering of Natural Gas Publication ANSI/API 2530, with any subsequent amendments or revisions. Computations for gas measurement shall also be made in accordance with this publication. Volume measurement by means other than that described above will be an exception to the Agreement which must be approved by all parties concerned.

(iii) Temperature Measurement: The temperature of the gas shall be determined by a recording thermometer so installed that it may record the temperature of the gas flowing through the meters. The average of the record to the nearest one (1) degree Fahrenheit, obtained while gas is being delivered, shall

be the applicable flowing gas temperature for the period under consideration.

(iv) Specific Gravity Measurement: The specific gravity of the gas shall be determined by such methods as may be mutually agreed upon. Sampling shall occur at a suitable point on the facilities to record representative specific gravity of the gas being metered. If the parties do not consider the installation of a recording gravitometer necessary, spot samples or continuous sampling using standard type specific gravity methods may be used. If the spot sample or continuous sampling method is used, the specific gravity of the gas delivered hereunder shall be determined once a month from a gas analysis. With any method the result shall be obtained to the nearest one-thousandth (0.001) and should be applied during the calendar month for the determination of gas volumes delivered.

(v) Assumed Atmospheric Pressure: The average atmospheric pressure shall be assumed to be fourteen and four-tenths pounds per square inch absolute (14.4 psia).

(vi) Assumed Orifice Thermal Expansion Factor and Location Factor: The Orifice Thermal Expansion Factor and the Location Factor shall be assumed to be one (1.0), unless otherwise agreed to be all parties to use a different value. Factors other than one (1.0) will be determined in accordance with ANSI/API 2530, hereinabove identified.

(vii) Other Tests: Other tests to determine water content, sulfur, and the like in the gas shall be conducted whenever requested by either party at the requesting party's expense and shall be conducted in accordance with standard industry testing procedures.

D. Billing, Payment and Notice. KET will use its best efforts to furnish to BGC on or before the tenth (10th) day of each calendar month a gas allocation statement setting forth, in terms of MCF, the total quantity of gas received and the Point(s) of Delivery, the total quantity of gas redelivered hereunder to BGC at the Point of Redelivery during the immediately preceding calendar month, and will render an invoice setting forth the transportation fees payable to KET. BGC agrees to pay KET the full amount payable according to such statement on or before fifteen (15) days following the receipt thereof by BGC. Should BGC fail to timely pay part or all of the amount of any billing for services rendered or for any other charges payable hereunder, interest shall accrue on the unpaid balance at the rate of twelve (12%) per annum from the due date until date of payment. If such failure to pay continues for thirty (30) days after payment is due, KET, in addition to any other remedy it may have, may suspend further receipt and delivery of gas until such amount including interest, is paid.

It is further agreed that if it is ultimately determined through judicial proceedings that KET is entitled to collect from BGC a sum due and owing for services provided under this Agreement, in addition to the payment of said amount from BGC, KET shall also be entitled to an award of interest thereon at the above-stated contractual rate of twelve percent (12%) per annum from the date due

until the date paid, as well as all costs and attorney fees incurred by KET in such legal proceeding. Each party hereto or its representative shall have the right at all reasonable times to examine the books and records of the other party to the extent necessary to verify the accuracy of any statement, charge, computation or demand made under or pursuant to this Agreement. Any statement shall be final as to all parties unless questioned within one (1) year after payment thereof has been made. Any notice, request, demand, statement, payment or other correspondence shall be mailed to the post office address of each of the parties hereto, hereinafter states, or to such other address as such party may hereafter designate to the other in writing:

Burkesville Gas Company, Inc
119 Upper River
Burkesville, Kentucky 42717

Kentucky Energy Transmission, Inc.
Route 3, Box 26A Highway 127
Albany, Kentucky 42602

E. Taxes. KET agrees to pay or cause to be paid during the term of this agreement all Taxes (as defined in paragraph (i) below) effective as of the date of this Agreement, lawfully levied and imposed upon KET with respect to the transportation of gas and associated facilities related thereto.

(i) The term "Taxes" as used herein shall mean all taxes, including, but not limited to, gross receipts tax, licenses, fees and other charges levied, assessed or made by any governmental authority on the act, right or privilege of transporting, handling or delivering gas which is measured by the volume, heat content, value or sales price of the gas or transportation fee levied upon and/or paid by BGC with respect to the gas delivered hereunder. The term "Taxes" as used herein does not include and expressly excludes all gross production, excise and severance taxes, ad valorem, capital stock, income or excess profit taxes, general franchise taxes imposed on corporations on account of their corporate existence or on their right to do business within the state as foreign corporations and similar taxes chargeable to KET.

F. Assignment. This Agreement shall bind and benefit the parties hereto and their respective successors and assigns, provided that no conveyance or transfer of any interest of either party shall be binding on the other party until such other party has been furnished with written notice and a true copy of such conveyance or transfer.

G. Miscellaneous.

(i) This Agreement contains the entire agreement between the parties hereto on the date hereof, respecting the subject matter hereof, and there are no prior or contemporaneous agreements or representations affecting such subject matter other than those herein expressed.

(ii) It is further agreed that no modification or change herein shall be enforceable unless reduced to writing and executed by both parties.

(iii) No waiver by either party hereto of any one or more defaults by the other in the performance of any of the provisions of this Agreement shall operate or be construed as a waiver of any future default or defaults whether of a like or different character.

(iv) All operations conducted pursuant to this Agreement are subject to all present and future laws of the State of Kentucky and to all orders, rules and regulations of any State or federal regulatory body having jurisdiction. This Agreement shall be construed, enforced and performed in accordance with the laws of the State of Kentucky. If any provision hereof conflicts with such laws, then to the extent of such conflict this Agreement shall be deemed modified to conform therewith.

(v) The provisions of this Agreement shall not impart rights enforceable by any person, firm or organization not a party or not bound as a party, or not a successor and/or assignee of a party bound to this Agreement.

(vi) KET shall at all times maintain the transportation lines used to transport gas on behalf of BGC from the point of receipt to the point of delivery and shall covenant with BGC that the gas supply shall not be interrupted as long as a supplier has supplied gas at the point of receipt on behalf of BGC that would otherwise be acceptable under the specifications of this agreement for transportation to the point of delivery. If such interruption occurs for a period of 24 consecutive hours, then BGC shall notify KET of such interruption and if the matter has not been cured within an additional 24 hours, after receipt of notice thereof, BGC may, at its option, declare KET to be in default and pursue all available remedies for such default as may apply under Kentucky law.

ARTICLE - II

TERM OF AGREEMENT

This Agreement shall commence upon completion of the BGC's financing to acquire the natural gas system in Burkesville and shall continue in force and effect [for a term of one contract year (Primary Term); provided, however, the Primary Term shall be automatically extended by one year hereunder and by one year on each subsequent anniversary for a total of twenty-five (25) years]. This Agreement may be terminated by either KET or BGC upon twelve (12) month's prior written notice. This Agreement may be

terminated at any time by KET in the event BGC fails to pay part or all of the amount of any bill for service hereunder and such failure continues for thirty (30) days after payment is due; provided KET gives ten (10) days prior written notice to BGC of such termination and provided further such termination shall not be effective if, prior to the date of termination, BGC either pays such outstanding bill or furnishes a good and sufficient surety bond guaranteeing payment to KET of such outstanding bill.

ARTICLE III
RATE SCHEDULE

BGC shall pay KET, for all service rendered hereunder in the period stated, applicable prices established under KET's Rate Schedule, attached as Exhibit 1, as same may hereafter be legally amended or superseded.

BGC agrees that KET shall have the unilateral right to file with the appropriate regulatory authority and make changes effective in the rates and charges applicable to service pursuant to KET's Rate Schedule. KET agrees that BGC may protest or contest the aforementioned filings, or may seek authorization from duly constituted regulatory authorities for such adjustments.

ARTICLE IV
POINT(S) OF RECEIPT

The Point(s) of Receipt at which KET shall receive gas for transportation under this rate schedule specifying for each Point of Receipt the Maximum Daily Receipt Obligation and Delivery Pressure Limitations as contemplated under the general terms and conditions.

Point of Receipt	Maximum Daily Receipt	Receipt Pressure Limit
Metcalfe County M & R Station #2536	1,000 mcf	1,000 Lbs psi

ARTICLE V

POINT(S) OF DELIVERY

Natural gas to be delivered by KET to BGC hereunder shall be delivered on the outlet side of the measuring station(s) at or near the following point(s), with the Maximum Daily Delivery Obligation and the Delivery Pressure Obligation indicated below for each such Point of Delivery as contemplated under the General Terms and Conditions:

Point of Delivery	Maximum Daily Delivery Obligation	Delivery Pressure Obligation
Burkesville City Gate	2,000 mcf	98 Lbs psig
Any Point Along the KET Transmission Line, as Determined at a Future Date	5,000 mcf	98 Lbs psig

ARTICLE VI

QUALITY

All natural gas tendered for transportation to KET for the account of BGC at the Point(s) of Receipt shall conform to the quality specifications set forth in Section 4.6 of KET's General Terms and Conditions. KET may refuse to take delivery of any gas for transportation which does not meet such quality provisions.

ARTICLE VII

ADDRESSES

Any notice, request, demand, statement, bill or payment provided for in this Agreement, or any notice which any party may desire to give to the other, shall be in writing and shall be considered as duly delivered when mailed by registered, certified, or regular mail to the post office address of the parties hereto, as the case may be, as follows:

- (a) KET:
Kentucky Energy Transmission, Inc.
Route 3 Box 26A Highway 127
Albany, Kentucky 42602
- (b) BGC:
Burkesville Gas Company, Inc.
119 Upper River Street
Burkesville, Kentucky 42717

or such other address as either party shall designate by formal written notice.

ARTICLE VIII

EXCLUSIVITY

BGC shall have the exclusive right for the term of this Agreement to tap the existing KET transmission line for the purpose of retail sales to residential, commercial, industrial, and agricultural users. Nothing in Article VIII will restrict KET from making other connections or supplying natural gas to outlying areas. KET shall give right of first refusal to BGC for outlying areas. KET does herein agree to enter into a Transportation Agreement with BGC for the purpose of supplying natural gas to the City of Marrowbone and its surrounding areas.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their respective Presidents, Vice Presidents or other duly authorized agents and their respective corporate seals to be hereto affixed and attested by their respective Secretaries or Assistant Secretaries, the day and year first above written.

KENTUCKY ENERGY TRANSMISSION, INC.

BURKESVILLE GAS COMPANY, INC.

BY: _____

BY: _____

ATTEST: _____

ATTEST: _____

EXHIBIT A

DATED: December 23, 1991

TO THE SERVICE AGREEMENT BETWEEN
KENTUCKY ENERGY TRANSMISSION, INC. ("KET") AND
BURKESVILLE GAS COMPANY, INC. ("BGC") POINTS OF RECEIPT

Transportation Charge: 40¢ per mcf

In no way shall any successive renewals of the term of this Agreement cause the Transportation Charge to exceed \$1.00 per mcf.

Firm Points not Subject to Reduction Pursuant to Receipt

Point of Receipt Description	Maximum Daily Receipt Obligation*	Measurement Responsibilities
City Gate Meter #2642 End of Church Street	1,000 mcf	BGC

plus applicable shrinkage