



Delta Natural Gas Company, Inc.



3617 Lexington Road
Winchester, Kentucky 40391-9797

PHONE: 859-744-6171
FAX: 859-744-3623

June 19, 2008

RECEIVED

JUN 19 2008

**PUBLIC SERVICE
COMMISSION**

Ms. Stephanie L. Stumbo
Executive Director
Public Service Commission
P O Box 615
Frankfort, KY 40601

Dear Ms. Stumbo:

Case No: 200800229

Enclosed is Delta Natural Gas Company's Application for Certificate of Convenience and Necessity to bid on a franchise being offered by the Lexington-Fayette Urban County Government.

Please note that bids must be submitted no later than 2:00 pm on July 2, 2008. Therefore, we would appreciate the Commission's earliest convenient consideration of Delta's request.

If you need any additional information regarding this matter, please contact me.

Please acknowledge receipt of this filing by stamping the extra copy of the cover letter and returning in the envelope provided.

Sincerely,

Connie King

Connie King
Manager – Corporate & Employee Services

RECEIVED

JUN 19 2008

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE APPLICATION OF DELTA NATURAL)
GAS COMPANY, INC. FOR A CERTIFICATE)
OF CONVENIENCE AND NECESSITY TO BID)
ON A FRANCHISE OFFERED BY THE)
LEXINGTON-FAYETTE URBAN COUNTY)
GOVERNMENT)

CASE NO. 2008 00229

APPLICATION

Comes Delta Natural Gas Company, Inc. (hereinafter called "Delta") pursuant to KRS 278.300 for its application herein states as follows, to-wit:

(1) That Delta is a Kentucky corporation with its principal office and place of business located at 3617 Lexington Road, Winchester, Kentucky 40391.

(2) A certified copy of Delta's most recent Amended and Restated Articles of Incorporation has heretofore been filed with this Commission in connection with a prior proceeding of Delta, same being Case No. 2007-00089, *In the Matter of: Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates*, filed on April 20, 2007.

(3) Delta is a utility engaged in the natural gas business. Delta purchases, stores and transports natural gas in Bath, Estill, Montgomery, Menifee, Madison, Powell, Garrard, Jackson, Lee, Bourbon, Jessamine, Rowan, Bell, Knox, Whitley, Laurel, Clay, Leslie, Fayette, Fleming, Clark, Robertson and Mason Counties, Kentucky.

(4) That the Lexington-Fayette Urban County Government has offered a franchise for the distribution and sale of natural gas. A true copy of said Ordinance Creating Franchise and documents pertinent thereto are attached, made a part hereof and designated as Exhibit A for purposes of identification.

(5) That there is a need and demand for such service by Delta to the Lexington-Fayette Urban County Government and Delta is ready, willing and able to provide such service.

WHEREFORE, Delta Natural Gas Company, Inc. respectfully prays that the Public Service Commission of Kentucky enter its Order authorizing Delta to bid on the franchise offered by the Lexington-Fayette Urban County Government.

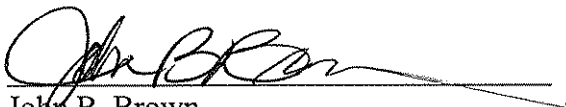
By: 
John B. Brown
Chief Financial Officer, Secretary & Treasurer
Delta Natural Gas Company, Inc.
3617 Lexington Road
Winchester, KY 40391



Exhibit A

Mayor Jim Newberry

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Division of Central Purchasing

TO: Whom it may concern
FROM: Brian Marcum, Director of Central Purchasing
DATE: June 18, 2008
SUBJECT: Gas Franchise

Per the attached Lexington-Fayette Urban County Government Ordinance, bids for a non-exclusive Gas Franchise will be received in the office of the Division of Central Purchasing until 2:00 PM EST on July 2, 2008. Bids delivered after the time and date set for opening will not be accepted. Bids may be hand delivered or mailed to:

Division of Central Purchasing
200 East Main Street
Room 338
Lexington, Kentucky 40507

Bids shall be submitted in a sealed envelope and must be labeled bid for "Gas Franchise".

It is the policy of the Lexington-Fayette Urban County Government to accept irrevocable letters of credit drawn in favor of the Lexington-Fayette Urban County Government as an acceptable security deposit if the bidder chooses a letter of credit in lieu of cash or certified/cashiers check.

Bids shall be written on letterhead or a document that clearly identifies who the bidder is and must be signed by an authorized agent of the bidder. The bid shall indicate that the requirements of the ordinance will be adhered to and shall clearly indicate any deviations from the ordinance requirements. If signature requires a Power of Attorney, the Power of Attorney authorization must also be submitted with the bid.

The Lexington-Fayette Urban County Government reserves the right to waive minor technicalities or irregularities.

AN ORDINANCE CREATING AND ESTABLISHING A NON-EXCLUSIVE GAS FRANCHISE AND PROVIDING FOR: THE PLACEMENT OF FACILITIES FOR THE TRANSMISSION, DISTRIBUTION AND SALE OF GAS FOR HEATING AND OTHER PURPOSES WITHIN THE PUBLIC RIGHTS-OF-WAY; THE INCORPORATION OF THE PROVISIONS OF THE CODE OF ORDINANCES AND THE APPLICABLE ZONING LAWS; DEFINITIONS; A POLICE POWER LIMITATION; MINIMUM CONSTRUCTION, INSTALLATION, MAINTENANCE AND FACILITY STANDARDS; COMPLIANCE WITH THE GOVERNMENT'S PERMITTING PROCESS FOR PROJECTS; DUE REGARD FOR RIGHTS OF THE GOVERNMENT AND OTHERS; ADDITIONAL PERFORMANCE GUARANTEES OF UP TO \$200,000 ON PROJECTS WITH CONSTRUCTION COSTS EXCEEDING \$100,000; AN INDEMNIFICATION AND HOLD HARMLESS AGREEMENT; COMPLIANCE WITH NON-DISCRIMINATION AND AFFIRMATIVE ACTION REQUIREMENTS; COMMERCIAL GENERAL LIABILITY INSURANCE POLICY IN THE AMOUNT OF AT LEAST \$1,000,000 PER OCCURRENCE AND \$2,000,000 AGGREGATE; ACCESS, INSPECTION AND AUDITING BY GOVERNMENT; NOTICE OF CERTAIN ACTIONS BEFORE THE PUBLIC SERVICE COMMISSION AND AGREEMENT NOT TO OPPOSE INTERVENTION BY GOVERNMENT; A THREE YEAR DURATION; NO VESTED RIGHTS FOR INSTALLATION OR EMPLACEMENT OF FACILITIES AND RIGHT TO REQUIRE REMOVAL OF FACILITIES WITHIN A REASONABLE TIME AT COMPANY'S EXPENSE IF NO FRANCHISE EXISTS; NOTICE OF ASSIGNMENT AND ASSIGNMENT OF FRANCHISE WITH CONSENT; NO OBJECTION TO GOVERNMENT INTERVENTION IN A TRANSFER OF CONTROL CASE BEFORE THE PUBLIC SERVICE COMMISSION; NOTICE OF A PUBLIC SALE OF COMPANY IN ORDER FOR GOVERNMENT TO BE AFFORDED AN OPPORTUNITY TO BID ON THE COMPANY OR ITS ASSETS; THE FOLLOWING PENALTIES RECOVERABLE FOR VIOLATIONS AFTER COMPANY IS PROVIDED THE OPPORTUNITY TO PRESENT EVIDENCE TO THE COMMISSIONER OF PUBLIC WORKS AND DEVELOPMENT OR HIS DESIGNEE, WITH SUCH DECISIONS APPEALABLE TO A COURT OF COMPETENT JURISDICTION: \$500 A DAY FOR FAILURE TO COMPLETE CONSTRUCTION PROJECTS BY NO LATER THAN THE END OF THE FRANCHISE, WITH THE OPTION OF PROVIDING SUITABLE PERFORMANCE BOND OR OTHER PROTECTION TO GOVERNMENT IN LIEU OF SUCH PENALTY, AND \$100 A DAY FOR FAILURE TO PROVIDE DATA AND REPORTS REQUESTED BY GOVERNMENT AS REQUIRED BY THE ORDINANCE, OR FOR FAILURE TO TIMELY PAY THE FRANCHISE FEE OR AN ITEMIZED BILL; A \$100 A DAY PENALTY APPEALABLE TO A COURT OF COMPETENT JURISDICTION FOR A FAILURE TO COMPLY WITHIN THIRTY DAYS TO A COUNCIL RESOLUTION DIRECTING COMPLIANCE WITH A PROVISION OF THE ORDINANCE; NON-WAIVER AND CONTINUED PERFORMANCE AND ENFORCEMENT UPON GOVERNMENT'S FAILURE TO INSIST ON SPECIFIC PERFORMANCE; THE PAYMENT OF PENALTIES NOT AN EXCUSE FOR NON-PERFORMANCE; COMPANY OBLIGATED TO ENSURE UNINTERRUPTED SERVICE, MAINTAIN CORPORATE HEADQUARTERS IN LEXINGTON, INCLUDING MINIMAL STAFFING AND A CUSTOMER PAYMENT CENTER; TERMINATION UPON WILLFUL VIOLATIONS OF THE FRANCHISE, WILLFUL EVASION OF PROVISIONS OF THE FRANCHISE, FRAUD AND DECEIT UPON GOVERNMENT, KNOWINGLY MAKING MATERIAL MISREPRESENTATIONS, OR FAILING TO BEGIN SERVICE RESTORATION FOLLOWING SEVENTY-TWO CONSECUTIVE HOURS OF INTERRUPTED SERVICE WITHOUT GOVERNMENT APPROVAL, AND PROCEDURES FOR TERMINATING THE FRANCHISE; SIXTY DAYS ADVANCE WRITTEN NOTICE OF THE FORECLOSURE OR OTHER JUDICIAL SALE OF COMPANY'S FACILITIES; GOVERNMENT'S RIGHT TO CANCEL FRANCHISE THIRTY DAYS AFTER THE APPOINTMENT OF A RECEIVER OR TRUSTEE UNLESS CERTAIN CONDITIONS ARE MET; SALE AT PUBLIC AUCTION OF THE FRANCHISE AND DUE ADVERTISEMENT REQUIREMENTS THEREON; WRITTEN BIDS, RIGHT TO REJECT, PAYMENT OF FIVE PERCENT OF THE ESTIMATED COST OF THE SYSTEM UNLESS COMPANY ALREADY HAS SUFFICIENT FACILITIES TO PROVIDE THE FRANCHISE SERVICES, AND PAYMENT OF \$500 FOR ADVERTISEMENT AND ADMINISTRATIVE COSTS WITH ANY EXCESS AMOUNTS EXCEEDING ACTUAL COSTS TO BE RETURNED TO BIDDER(S) WITHIN THIRTY DAYS; PAYMENT OF THE SUM OF AT LEAST THREE PERCENT OF COMPANY'S GROSS ANNUAL REVENUES FROM THE SALE, DISTRIBUTION, AND/OR DELIVERY OF GAS WITHIN FAYETTE COUNTY BEGINNING WITH THE FIRST BILLING PERIOD FOLLOWING TARIFF APPROVAL BY THE PUBLIC SERVICE COMMISSION WITH EXISTING PAYMENTS TO CONTINUE UNTIL SUCH APPROVAL IS OBTAINED; PAYMENT OF PERMITTING FEES; THE FILING OF AN APPLICATION OR TARIFF WITH THE PUBLIC SERVICE COMMISSION WITHIN TEN WORKING DAYS OF ACCEPTANCE OF THE BID; SUSPENSION OF PAYMENT OF THE FRANCHISE FEE IF NO FINAL DETERMINATION REGARDING TARIFF APPROVAL IS MADE AND ALLOWING GOVERNMENT TO TERMINATE THE FRANCHISE UPON SUCH CONDITION; ALL PAYMENTS TO BE MADE WITHIN THIRTY DAYS OF THE PRECEDING CALENDAR MONTH; PAYMENT IS NOT AN ACCORD AND SATISFACTION, RIGHT TO AUDIT AND TO PAYMENT OF COSTS IF THE COMPANY IS FOUND TO HAVE WITHHELD FIVE PERCENT OR MORE FOR ANY SIX MONTH PERIOD, OR IF PERFORMED

AS PART OF A MODIFICATION, EXTENSION OR GRANTING OF A FRANCHISE OR TRANSFER OF COMPANY OR ASSIGNMENT OF THE FRANCHISE; INTEREST OF EIGHT PERCENT ON ANY LATE OR RECOMPUTED PAYMENTS AND AN ADJUSTMENT FOR OVERPAYMENTS; BIDS MUST ACCEPT THE CONDITIONS OF THIS ORDINANCE AND MAY INCLUDE ADDITIONAL CONSIDERATION PAYMENTS; VIOLATIONS OF THE FRANCHISE SHALL BE CONDITION FOR FORFEITURE, LAW OF KENTUCKY APPLIES; VENUE IN FAYETTE COUNTY; NO THIRD-PARTY RIGHTS; ANY UNLAWFUL PROVISION IS SEVERABLE; AND FRANCHISE EFFECTIVE WHEN THE COUNCIL ACCEPTS THE BID(S); ALL EFFECTIVE ON DATE OF PASSAGE.

BE IT ORDAINED BY THE COUNCIL OF THE LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT:

Section 1 - There is hereby created a non-exclusive franchise to acquire, lay, maintain and operate in the public streets, alleys, avenues, public roads, highways, sidewalks and other public ways of the Lexington-Fayette Urban County Government (hereinafter the "Rights-of-way"), a system of mains, pipes, fixtures and appliances for the transmission, distribution and sale of gas for heating and other purposes, subject to all the provisions of this Ordinance and any franchise agreement entered into pursuant to the terms of this Ordinance. This Ordinance does not excuse the franchisee from complying with any and all existing and future local laws and ordinances, as may be amended, including but not limited to the terms and provisions of Chapters 17, 17B, and 17C of the Code of Ordinances, Lexington-Fayette Urban County Government (the "Code"), and any applicable provisions of its zoning ordinance as may be amended (the "Zoning Ordinance"), which are incorporated herein by reference, and shall apply as if fully set forth herein to the extent that there is no express conflict with the terms or provisions of this Ordinance.

Section 2 - The person, firm or corporation that shall become the purchaser of said franchise, or any successor or assignee of such person, shall hereinafter be referred to as the "Company" herein. The Lexington-Fayette Urban County Government shall hereinafter be referred to as the "Government". The pertinent definitions and terminology contained in the provisions of the Code and/or the Zoning Ordinances are hereby incorporated herein by reference.

Section 3 - The Company acquiring this franchise shall have the right and privilege of laying, maintaining and operating gas mains and pipes, equipment and apparatus, and appurtenances necessary or appropriate in connection therewith, in, along and under the Rights-of-way within the corporate boundaries of the Government as they now exist or may hereafter be extended (referred to herein as "System" or "Facilities"); subject to the provisions hereof and to all powers (including police power) inherent in, conferred upon, or reserved to said Government, including but not limited to those contained in the Code.

Section 4 - In the operation of its gas System as it relates to the rights conferred by this franchise, the Company shall conform to at least the minimum standards or

requirements contained in federal or state law or regulation related to transportation of gas and liquids by pipeline. In addition to complying with all of the requirements contained in federal or state law or regulation, and the Code, the Company agrees that:

(a) all working facilities and conditions used during construction, installation and maintenance of Facilities under this franchise shall comply with the standards of the Occupational Safety and Health Administration;

(b) it shall construct and operate the System and Facilities under this franchise in accordance with all generally accepted related industry codes and standards that are applicable;

(c) it guarantees the first-class quality of all construction and of all materials and equipment used or installed under this franchise. In case of any defect in the work, materials or equipment, whether latent or patent, the Company will forthwith remedy such defects without cost to Government; and

(d) in the construction or reconstruction or maintenance or removal of any of said Facilities, the Company shall have due regard for the rights of the Government and others, and shall not interfere with, or in any way injure the property of the Government or others lawfully under, on, or above the Right-of-way. The Company shall comply with all the laws of the *Commonwealth of Kentucky and the Code* as to placing lights, danger signals or warning signs and shall be liable for any and all damage that may arise by reason of its failure or neglect to comply with the Code and laws. Work by the Company hereunder shall be done in a workmanlike manner and so as not to unnecessarily interfere with public use of the Rights-of-way.

Section 5 – The Company shall comply with all of the requirements of the Code, and more specifically, *Section 17C-19 of the Code, pertaining to Government or public construction and/or street projects.*

Section 6 – In addition to any performance bond(s) required pursuant to Section 17C-23 of the Code, the Company may be required to provide a performance guarantee for significant projects with construction costs of one hundred thousand dollars (\$100,000) or more involving the Rights-of-way. This performance guarantee shall be set in an amount and duration to be determined by the Director upon discussing and verifying the scope of such a project with the Company, and shall be in favor of the Government to be issued by an entity subject to jurisdiction and venue in Fayette County, Kentucky. In no event shall the total cumulative amount of such performance guarantee exceed two hundred thousand dollars (\$200,000), unless otherwise provided in this Ordinance.

Section 7 – The Company agrees by the acceptance of this franchise to defend, indemnify, keep and save the Government, its officials, boards, members, agents, and employees free and harmless against any and all claims, suits, causes of action, proceedings, judgments for damages or equitable relief, and costs and expenses, including reasonable attorney’s fees arising from liability or claims of liability on account of injuries or damage to persons or property growing out of the construction, maintenance, repair and operation of its gas system. In the event that suit shall be brought against the Government either *independently or jointly with the Company* on account hereof, the said Company, upon notice by the Government, shall defend the Government in any such suit at the cost of the Company and in the event of final judgment being obtained against the Government either *independently or jointly with the Company*, the Company shall pay such judgment with all costs and hold the Government harmless therefrom except where such claims, suits, causes of action proceedings, damages, liabilities or judgments were caused by the act or omission of the Government, its officials, boards, members, agents, or employees .

Section 8 - The Company shall comply with all applicable federal, state or local non-discrimination and affirmative action requirements of any laws, regulations and executive directives, and shall not discriminate in its employment practices against any employee or applicant for employment because of race, color, religion, national origin, sex, age or physical handicap.

Section 9 - The Company agrees to procure and maintain throughout the term of any franchise agreement awarded pursuant to this Ordinance and any extension thereof, commercial general liability insurance in the principal amount of at least One Million dollars (\$1,000,000) per occurrence with a Two Million Dollar (\$2,000,000.00) aggregate, with an insurance company authorized to do business in the Commonwealth of Kentucky with the provision, “it is agreed and understood that the *Lexington-Fayette Urban County Government, its agents, employees, officers and elected officials*, as their interests may appear, are additional insureds, in the same manner as if a separate policy had been issued, under the provision of the policies required to be issued *during the term of this franchise or as otherwise required by this Ordinance.*” All insurance policies shall be broad form in nature and shall be through a company with an A.M. Best Rating of “A” or better, admitted to do business in Kentucky, and the contract shall be non-cancelable without at least thirty (30) days advance written notice by registered mail to the Government from the insurance company.

Section 10– (a) The Government, through its Mayor or his designee, or through such assistants as the Government may employ or designate, may, at all reasonable times and

under reasonable conditions with prior notice, have access to all or any of the property owned or used in part or in whole by the Company in its operating and maintaining the gas System under this franchise and located within the Government's Right-of-way. In like manner, the Government's above-mentioned officers and assistants may at all reasonable times and under reasonable conditions with prior notice, inspect, examine or verify all or any of the accounts, books, records, contracts, documents or papers of the Company relating to gross revenues in Fayette County in order to audit and recompute any amounts determined to be payable under this Ordinance consistent with the provisions of Section 20(b) of this Ordinance. In the event that the Government determines that it desires an audit of this franchise, the Company agrees to comply with all reasonable requests of the Government pertaining to obtaining any necessary information or documentation from the Company reasonably necessary to the administration of this franchise.

(b) The Company agrees further to furnish the Mayor or his designee timely written notice of its filing an application with the Public Service Commission for an increase in general rates or change in its billing practices concurrent with said filing. Should the Government choose to intervene in the Commission action, the Company shall not oppose such intervention, and the Government shall be given access to records related to said application, as required by the Commission.

Section 11 - (a) The franchise hereby created shall be a period of three (3) years from the date of acceptance by the Urban County Council. This franchise is not exclusive and the Government reserves the right to grant similar franchises to more than one Company.

(b) This franchise creates no vested rights in the Company and any installation or emplacement of Facilities by the Company in the Rights-of-way is at the Company's risk. If the Company is not granted a new or extended franchise upon the expiration of the term for which the franchise is granted, or if the Company's franchise is terminated or cancelled, as provided for herein, the Government shall have the right to require the Company to remove at its own expense all portions of the system from all Rights-of-way within the confines of Fayette County. The Company shall be provided a reasonable time within which to remove its facilities.

(c) No assignment of this franchise or the gas distribution System subject to this franchise shall take place without at least sixty (60) days advance written notice to the Government, and consent by the Government, which consent shall not be unreasonably withheld.

(d) The Company shall not object to the Government's intervention in any action before the Public Service Commission involving the transfer of control of the Company.

(e) In the event that the Company, or its parent entity, announces through a public filing with the Securities and Exchange Commission, or other public agency filing, that a majority, or more, of the assets of the Company, are available for sale to the public separate and apart from the sale or transfer involving additional companies or assets owned by a parent entity and that such sale involves the seeking of publicly solicited bids for such Company's assets, the Company shall notify the Government in writing within ten (10) business days of such filing. The Government shall then be provided a period of time not less than the period of time allowed by any other potential bidder, and in accordance with the procedure set forth by the Company, to determine whether it wishes to make an offer on the assets that become available for sale and submit its offer. However, such right to make an offer shall not preclude other parties from making offers, nor does such an offer create an obligation on the Company to accept such offer or delay a sale or transfer of the assets nor is this provision intended to prevent the Company, its Board of Directors and its officers from exercising their regulatory and fiduciary duties in the decision to accept, reject, modify or alter any offer submitted by any bidder or to amend or withdraw the procedure established for the solicitation of such bids. The Government recognizes that the terms of this section are applicable only in the event that bids are publicly solicited according to this section.

Section 12 - (a) If, after the Company is provided the opportunity to appear and present evidence before the Government's Commissioner of Public Works and Development or his designee, the Government finds that the Company has violated any of the following provisions of this Ordinance, the following penalties shall be recoverable. The decision of the Commissioner shall be the final administrative decision and shall be in writing and provide the basis for the decision. The decision may be appealed to a court of competent jurisdiction.

(1) For failure to complete any construction project by no later than the ending term of any franchise awarded pursuant to this Ordinance or any extension thereof, the Company shall forfeit five hundred dollars (\$500.00) per day or part thereof that the violation continues; in lieu of a penalty, the Company may post a performance bond, letter of credit or other surety acceptable to the Government in an amount sufficient to complete such construction projects. This section shall not apply to any projects for which performance bonds or other surety is already pledged.

(2) For failure to provide data and reports requested by the Government and as required by this Ordinance the Company shall forfeit on hundred dollars (\$100.00) per day or part thereof that the violation continues.

(3) For failure to pay the franchise fee when due pursuant to Section 19 of this Ordinance, or any itemized bill presented by the Government pursuant to Section 5 of this Ordinance or this section, the Company shall forfeit one hundred dollars (\$100.00) per day or part thereof that the violation continues.

(b) If the Company fails to comply within thirty (30) days of any Council resolution directing compliance with any other provisions of this Ordinance, the Company shall forfeit one hundred dollars (\$100.00) per day or part thereof that the violation continues. The decision of the Council may be appealed to a court of competent jurisdiction.

(c) The Company shall not be excused from complying with any of the terms and conditions of this Ordinance by any failure of the Government, upon any one or more occasions, to insist upon the Company's performance or to seek the Company's compliance with any one or more of such terms or conditions. Payment of penalties shall not excuse non-performance under this Ordinance. The right of the Government to seek and collect penalties as set forth in this section is in addition to its right to terminate and cancel as set forth in Section 14 of this Ordinance.

Section 13 - At all times and under all circumstances the Company shall be obligated to do everything reasonably within its power to ensure that its customers in Fayette County receive uninterrupted service, unless such customer has elected interruptible service. The Company shall maintain its Kentucky corporate headquarters in Lexington, Fayette County, Kentucky, and agrees that it shall be staffed, at a minimum, with appropriate decision-making personnel for operations at the local level, which shall include, but not be limited to, the acceptance of payments, receipt of customer complaints, response to emergencies, and the general provisions of customer service.

Section 14 - (a) In addition to all other rights and powers pertaining to the Government by virtue of the franchise or otherwise, the Government, by and through its Council, reserves the right to terminate and cancel any franchise awarded pursuant to this Ordinance and all rights and privileges of the Company hereunder in the event that the Company:

(1) Willfully violates any material provision of the franchise or any material rule, order, or determination of the Government made pursuant to the franchise, except where such violation is without fault or through excusable neglect, including but not limited to cases of *force majeure*;

(2) Willfully attempts to evade any material provision of the franchise or practices any fraud or deceit upon the Government;

(3) Knowingly makes a material misrepresentation of any fact in the application, proposal for renewal, or negotiation of the franchise; or

(4) Fails to begin service restoration following seventy-two (72) consecutive hours of interrupted service, except when approval of such interruption is obtained from the Government. Such approval shall not be unreasonably withheld. In cases of force majeure or acts beyond the Company's control approval shall be granted. The Company shall provide, at a minimum, daily restoration status reports.

(b) The Mayor or his designee, or the Urban County Council may make a written demand that the Company do or comply with any such provision, rule, order or determination. If the violation, found in Section 14(a) of this Ordinance, by the Company continues for a period of thirty (30) days following such written demand without written proof that the corrective action has been taken or is being actively and expeditiously pursued, the Government may place its request for termination of the franchise as early as the next regular Council meeting agenda. The Government shall cause to be served upon Company, at least ten (10) days prior to the date of such Council meeting, a written notice of intent to request such termination and the time and place of the meeting, legal notice of which shall be published in the Lexington Herald-Leader, or another newspaper of general circulation published in Lexington, Fayette County, Kentucky.

(1) The Council shall consider the request of the Government and shall hear any person interested therein, and shall determine in its discretion, whether or not any violation by the Company was with just cause.

(2) If such violation by the Company is found to have been with just cause, the Council shall direct the Company to comply therewith within such time and manner and upon such terms and conditions as are just and reasonable.

(3) If the Council determines such violation by the Company was without just cause, then the Council may, by resolution or ordinance, declare that the franchise of the Company shall be terminated and forfeited unless there is compliance by the Company within such period as the Council may fix.

Section 15 - The Company shall provide the Government at least sixty (60) days advance written notice of the foreclosure or other judicial sale of all or a substantial part of the Company's Facilities, or upon the termination of any lease covering all or a substantial part of its Facilities, and such notification shall be treated as a notification that a change in control of the Company has taken place, and the provisions of Section 11 of this Ordinance, governing the consent of the Council to such change in control of the Company, shall apply.

Section 16 – The Council shall have the right to cancel this franchise thirty (30) days after the appointment of a receiver, or trustee, to take over and conduct the business of the Company, whether in receivership, reorganization, bankruptcy, or other action or proceeding, unless such receivership or trusteeship shall have been vacated prior to the expiration of said thirty (30) days, unless:

(a) Within thirty (30) days after his election of appointment, such receiver or trustee shall have fully complied with all the provisions of this Ordinance and remedied all defaults thereunder; and,

(b) Such receiver or trustee, within said thirty (30) days shall have executed an agreement, duly approved by the court having jurisdiction in the premises, whereby such receiver or trustee assumes and agrees to be bound by each and every provision of this Ordinance and the franchise granted to the Company.

Section 17 - It shall be the duty of the Mayor or his designee as soon as practicable after the passage of this Ordinance to offer for sale at public auction said franchise and privilege. Said franchise and privilege shall be sold to the highest and best bidder or bidders at a time and place fixed by the Mayor after he or she has given due notice thereof by advertisement in at least one (1) issue of the Lexington Herald-Leader, or another newspaper of general circulation published in Lexington, Fayette County, Kentucky. This advertisement shall appear not less than seven (7) days or more than twenty-one (21) days before the date of bid opening.

Section 18 - Bids and proposals for the purchase and acquisition of the franchise and privileges hereby created shall be in writing and shall be delivered to the Mayor or his designee upon the date and at the time fixed by him or her in said advertisement for receiving same. Thereafter, the Mayor shall report and submit to the Urban County Council, at the time of its next regular meeting or as soon as practicable thereafter, said bids and proposals for its approval. The said Urban County Council reserves the right, for and on behalf of the Government, to reject any and all bids for said franchise and privileges; and, in case the bids reported by the Mayor shall be rejected by the Urban County Council, it may direct, by resolution or ordinance, said franchise and privilege to be again offered for sale, from time to time, until a satisfactory bid therefore shall be received and approved. Each bid shall be accompanied by cash or a certified check drawn on a bank of the Commonwealth of Kentucky, or a national bank, equal to five percent (5%) of the fair estimated cost of the System required to render the service, which check or cash shall be forfeited to the Government in case the bid should be accepted and the bidder should fail, for thirty (30) days after the confirmation of the sale, to pay the price and to give a good and sufficient bond in

a sum equal to one-fourth (1/4) of the fair estimated cost of the system to be erected, conditioned that it shall be enforceable in case the purchaser should fail, within sixty (60) days, to establish and begin rendering the service in the manner set forth in this Ordinance. Bids shall include such documentation as is necessary to support the bidder's determination of the fair estimated cost of the System required to render the service. Government reserves the right to review any of bidder's supporting documentation which justifies bidder's determination of said estimated cost. Such deposit need not be made by a corporation or person already owning within the territorial limits of Fayette County a plant, equipment, and/or Facilities sufficient to render the service required by this Ordinance. In addition, each bid shall be accompanied by a non-refundable payment to the Government in the amount of five hundred dollars (\$500.00) to cover the Government's cost of advertising and other administrative expenses incurred. In the event that the total amount submitted by all bidders exceeds the Government's actual costs, it will refund the overcharge to each Company on a pro rata basis within thirty (30) days.

Section 19 - (a) In consideration of the granting of the franchise for sale, distribution, and/or delivery of gas within Fayette County the Company agrees to pay to the Government a sum equal to at least three percent (3%) of the gross annual revenues received by the Company from the sale, distribution, and/or delivery of gas rendered on its bills within Fayette County. Calculations of amounts payable hereunder and payments shall commence with the first billing period following tariff approval by the Kentucky Public Service Commission. The Company is otherwise required to continue submitting payments to the Government under the terms of its existing tariff and/or franchise until such time as this tariff approval is obtained.

(b) Pursuant to Section 17C-22 of the Code, as may be amended, the Company is also required to pay the Government an additional amount intended to adequately compensate the Government for its permitting and inspection of the Company's construction activities in the Rights-of-way. This amount is to be paid separately to the Government at the time and under the terms as set forth in Chapter 17C of the Code. These permitting fees shall be in addition to the above franchise fee. These permitting fees may be calculated as an appropriate percentage of gross revenues at the option of the Company. Notwithstanding the foregoing, the Company may elect to pay for its permit fees upon application for each respective permit upon approval of the Director. These permitting fees are subject to change during the term of the franchise based upon an audit of the actual cost of permitting for the Government, or a change in the amount of the respective permitting fees found in Section 17C-22 of the Code. In the event of such a change, the Company shall be provided at least sixty (60) days advance written notice.

(c) No later than ten (10) working days after final acceptance of its bid by the Government, the Company shall file an application or tariff with the Kentucky Public Service Commission to provide for prompt and satisfactory cost recovery of the amount(s) payable under this Ordinance and any franchise awarded pursuant to its terms for any amounts for which it desires recovery. The Company shall provide Government with copies of any tariffs it files with the Kentucky Public Service Commission related to the franchise in order to satisfy the obligations created herein.

(d) If, after a period of sixty (60) days from the filing of the Company's above application, the Kentucky Public Service Commission shall have made no final determination concerning the prompt and satisfactory recovery of amounts payable by the Company under this Section of the Ordinance, then the Company's obligation to pay the amount specified in Section 19(a) of this Ordinance shall be suspended, provided the Company shall first give the Urban County Government ten (10) days written notice of its intention to suspend payment pending the decision of the said Commission. In the event of suspension of the Company's obligation as herein provided, the Government shall have the option to terminate this franchise within thirty (30) days of receipt of said written notification from the Company.

Section 20 - (a) Payment of any amount due under this Ordinance shall be made monthly, within thirty (30) days of the end of the preceding calendar month. In the event of suspension of the Company's obligation pursuant to Section 19(d) herein, said suspension shall not have application to any amount due hereunder for the preceding calendar month, and the gross income received by the Company during any such suspension period shall be excluded from the Company's annual gross revenues for the purpose of calculating amounts due under Section 19 (a) herein.

(b) No acceptance of any franchise fee payment by the Government shall be construed as an accord and satisfaction that the amount paid is in fact the correct amount nor shall acceptance be deemed a release to any claim the Government may have for future or additional sums pursuant to this Ordinance. The Government shall have the right to inspect the Company's income, financial, and records relating to gross revenues in order to audit, and to re-compute any amounts determined to be payable under this Ordinance. Any additional amount due to the Government as a result of the audit shall be paid within ten (10) days following written notice to the Company by the Government which notice shall include a copy of the audit report. If as a result of such audit or review the Government determines that the Company has underpaid its franchise fee by five percent (5%) or more for any six (6) month period then in addition to

making full payment of the relevant obligation it shall reimburse the Government for all of the reasonable costs associated with the audit or review. If such audit or review is performed in connection with the granting of a new franchise, and extension of the terms of this franchise, a sale or transfer of control of the Company, or a substantive modification of the terms to, or an assignment of this franchise, the Company shall reimburse the Government for all of the reasonable costs associated with the audit or review including all out-of-pocket costs for attorneys, accountants and other consultants.

(c) In the event that any franchise payment or recomputed amount is not made on or before the applicable dates heretofore specified, interest shall be charged from such date at the annual rate of eight percent (8%). Overpayments discovered by the Government or the Company shall be an adjustment on the next monthly payment without interest.

Section 21 – Bids offered for purchase of this franchise shall state the bidder's acceptance of the conditions set forth in this Ordinance. If any bid shall include an offer of payment over and above the terms of the franchise, then a certified check for said amount, payable to the Lexington-Fayette Urban County Government, shall be deposited with the Government. This amount shall be in addition to the provision for payments contained in Sections 18 and 19 of this Ordinance, which shall be considered as a condition of this franchise. Any check deposited by an unsuccessful bidder shall be returned when the Urban County Council shall have accepted the bid or bids, which in its judgment is or are the highest and best.

Section 22 – Any violation by the Company, its vendee, Lessee, or successor of the provisions of this franchise or any material portions thereof, or the failure promptly to perform any of the provisions thereof, shall be cause for the forfeiture of any franchise awarded pursuant to this Ordinance and all rights hereunder after written notice to the Company and continuation of such violations, failure or default, as set forth in Section 14 of this Ordinance.

Section 23 – This Ordinance and any franchise awarded pursuant to it shall be governed by the laws of the Commonwealth of Kentucky, both as to interpretation and performance. The venue for any litigation related to this Ordinance or a franchise shall be in the court of competent jurisdiction in Fayette County, Kentucky.

Section 24 - This Ordinance and any franchise awarded pursuant to it does not create a contractual relationship with or right of action in favor of a third party against either the Government or the Company.

Section 25 - If any section, sentence, clause or phrase of the Ordinance is held unconstitutional or otherwise invalid, such infirmity shall not affect the validity of the remaining Ordinance.

Section 26 - The franchise created by this Ordinance shall become effective when the Urban County Council accepts the bid(s) for it.

Section 27 - This Ordinance shall become effective on the date of its passage.

PASSED URBAN COUNTY COUNCIL: June 12, 2008

/s/ Jim Newberry
MAYOR

ATTEST:

/s/ Susan Lamb
CLERK OF URBAN COUNTY COUNCIL

PUBLISHED: June 18, 2008-1t

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LEGAL NOTICE

Pursuant to Ordinance No. 135-2008 which follows this notice, the Lexington-Fayette Urban County Government offers at bid a non-exclusive Gas Franchise. The bid will be received Wednesday, July 2, 2008 at 2:00 PM EDT and conducted at: Division of Central Purchasing 200 East Main Street, Rm 338 Lexington, KY 40507.

Ordinance No. 135-2008

An Ordinance creating and establishing a non-exclusive gas franchise and providing for: the placement of facilities for the transmission, distribution and sale of gas for heating and other purposes within the public rights-of-way; the incorporation of the provisions of the Code of Ordinances and the applicable zoning laws; definitions; a police power limitation; minimum construction, installation, maintenance and facility standards; compliance with the Government's permitting process for projects; due regard for rights of the Government and others; additional performance guarantees of up to \$200,000 on projects with construction costs exceeding \$100,000; an indemnification and hold harmless agreement; compliance with non-discrimination and affirmative action requirements; commercial general liability insurance policy in the amount of at least \$1,000,000 per occurrence and \$2,000,000 aggregate; access, inspection and auditing by Government; notice of certain actions before the Public Service Commission and agreement not to oppose intervention by Government; a three year duration; no vested rights for installation or emplacement of facilities and right to require removal of facilities within a reasonable time at company's expense if no franchise exists; notice of assignment and assignment of franchise with consent; no objection to government intervention in a transfer of control case before the Public Service Commission;

notice of a public sale of company in order for Government to be afforded an opportunity to bid on the company or its assets; the following penalties recoverable for violations after company is provided the opportunity to present evidence to the Commissioner of Public Works and development or his designee, with such decisions appealable to a court of competent jurisdiction: \$500 a day for failure to complete construction projects by no later than the end of the franchise, with the option of providing suitable performance bond or other protection to Government in lieu of such penalty, and \$100 a day for failure to provide data and reports requested by Government as required by the Ordinance, or for failure to timely pay the franchise fee or an itemized bill, a \$100 a day penalty appealable to a court of competent jurisdiction for a failure to comply within thirty days to a council resolution directing compliance with a provision of the Ordinance; non-waiver and continued performance and enforcement upon Government's failure to insist on specific performance; the payment of penalties not an excuse for non-performance; company obligated to ensure uninterrupted service, maintain corporate headquarters in Lexington, including minimal staffing and a customer payment center; termination upon willful violations of the franchise, willful evasion of provisions of the franchise, fraud and deceit upon Government, knowingly making material misrepresentations, or failing to begin service restoration following seventy-two consecutive hours of interrupted service without Government approval, and procedures for terminating the franchise; sixty days advance written notice of the foreclosure or other judicial sale of company's facilities; Government's right to cancel franchise thirty days after the appointment of a receiver or trustee unless certain conditions are met; sale at public auction of the franchise and due advertisement requirements thereon; written bids, right to reject, payment of five percent of

the estimated cost of the system unless company already has sufficient facilities to provide the franchise services, and payment of \$500 for advertisement and administrative costs with any excess amounts exceeding actual costs to be returned to bidder(s) within thirty days; payment of the sum of at least three percent of company's gross annual revenues from the sale, distribution, and/or delivery of gas within Fayette County beginning with the first billing period following tariff approval by the Public Service Commission with existing payments to continue until such approval is obtained; payment of permitting fees; the filing of an application or tariff with the Public Service Commission within ten working days of acceptance of the bid; suspension of payment of the franchise fee if no final determination regarding tariff approval is made and allowing Government to terminate the franchise upon such condition; all payments to be made within thirty days of the preceding calendar month; payment is not an accord and satisfaction, right to audit and to payment of costs if the company is found to have withheld five percent or more for any six month period, or if performed as part of a modification, extension or granting of a franchise or transfer of company or assignment of the franchise; interest of eight percent on any late or recomputed payments and an adjustment for overpayments; bids must accept the conditions of this Ordinance and may include additional consideration payments; violations of the franchise shall be condition for forfeiture; law of Kentucky applies; venue in Fayette County; 40 third-party rights; any unlawful provision is severable; and franchise effective when the Council accepts the bid(s), all effective on date of passage.
Passed Urban County Council: June 12, 2008
/s/ Jim Newberry, Mayor
Attested: /s/ Susan Lamb
Clerk of the Urban County Council
Published: June 18, 2008