

HOWARD DOWNING
ATTORNEY AT LAW

109 South First Street
Nicholasville, Kentucky 40356
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June 19, 2012

Mr. Jeff Derouen
(Attention: Tariff Branch)
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602

RECEIVED

JUL 20 2012

PUBLIC SERVICE
COMMISSION

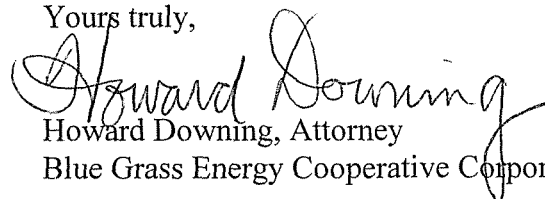
Re: Blue Grass Energy
Franchise Bid
Case No. 2012-00255

Dear Mr. Derouen:

Enclosed are two (2) of the Franchise Agreement between Blue Grass Energy and Lexington Fayette Urban County Government in accordance with the PSC order in Case No. 2012-00255.

Please acknowledge receipt of this information.

Yours truly,


Howard Downing, Attorney
Blue Grass Energy Cooperative Corporation

RESOLUTION NO. 413-2012

A RESOLUTION ACCEPTING THE BID OF BLUE GRASS ENERGY COOPERATIVE CORPORATION IN ACCORDANCE WITH THE PROVISIONS OF ORDINANCE NO. 78-2012, CREATING AND OFFERING FOR SALE A SHORT TERM FRANCHISE FOR THE OPERATION OF A NON-EXCLUSIVE ELECTRIC GENERATION, TRANSMISSION AND DISTRIBUTION SYSTEM IN FAYETTE COUNTY, AND AUTHORIZING THE MAYOR, ON BEHALF OF THE URBAN COUNTY GOVERNMENT, TO EXECUTE A FRANCHISE AGREEMENT WITH BLUE GRASS ENERGY COOPERATIVE CORPORATION, INCORPORATING THE TERMS AND CONDITIONS OF ORDINANCE NO. 78-2012.

RECEIVED

JUL 20 2012

PUBLIC SERVICE
COMMISSION

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

Section 1 - That the bid of Blue Grass Energy Cooperative Corporation, submitted in accordance with the provisions of Ordinance No. 78-2012, creating and offering for sale a short term franchise for the operation of a non-exclusive electric generation, transmission and distribution system in Fayette County, a copy of which is attached to the Franchise Agreement as Exhibit "A", is hereby declared to be a highest and best bidder for said franchise; and said franchise is hereby sold to and vested in Blue Grass Energy Cooperative Corporation, for the period of time provided in the ordinance and franchise agreement.

Section 2 - That the Mayor, on behalf of the Lexington-Fayette Urban County Government, be and hereby is authorized to execute the Franchise Agreement with Blue Grass Energy Cooperative Corporation, which is attached hereto and incorporated herein by reference, and which agreement incorporates by reference in its entirety the material provisions of Ordinance No. 78-2012 passed by the Urban County Council on June 21, 2012.

Section 3 - That this Resolution shall become effective on the date of its passage.

PASSED URBAN COUNTY COUNCIL: July 10, 2012

/s/ Jim Gray
MAYOR

ATTEST:

/s/ Susan Lamb
CLERK OF URBAN COUNTY COUNCIL

FRANCHISE AGREEMENT

THIS AGREEMENT made and entered into this 10th day of July, 2012, by and between the **LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT**, an urban county government of the Commonwealth of Kentucky pursuant to Chapter 67A of the Kentucky Revised Statutes (hereinafter "Lexington"), and **BLUE GRASS ENERGY COOPERATIVE CORPORATION**, a corporation created and existing under and by virtue of the laws of the Commonwealth of Kentucky, with its principal office at 1201 Lexington Road, Nicholasville, Kentucky 40356 (hereinafter "Blue Grass Energy").

WITNESSETH:

WHEREAS, by Ordinance No. 78-2012 (the "Ordinance"), enacted June 21, 2012, Lexington created a short-term non-exclusive franchise for the privilege of constructing, erecting, operating and maintaining an electric generation, transmission and distribution system in Fayette County, Kentucky; and

WHEREAS, pursuant to the Ordinance Lexington authorized the advertising for bids on said franchise and Blue Grass Energy submitted a timely bid to acquire said franchise; and

WHEREAS, by Resolution No. 413-2012, enacted July 10, 2012, Lexington accepted the bid of Blue Grass Energy as substantially responsive to the Ordinance and in the best interest of the citizens of Lexington-Fayette Urban County; and

WHEREAS, Lexington and Blue Grass Energy have agreed to accept the following as the terms of this Agreement and as those of the franchise.

NOW THEREFORE, for and in consideration of the mutual covenants and agreements contained herein the receipt and sufficiency of all of which are hereby acknowledged, the Government and Blue Grass Energy agree as follows:

1. Ordinance No. 78-2012, which is attached hereto as Exhibit "A" (the "Ordinance"), is incorporated herein by reference in its entirety and shall apply as if fully set forth herein.

2. The bid of Blue Grass Energy for this franchise, which is attached hereto as Exhibit "B", is incorporated herein by reference in its entirety and shall apply as if fully set forth herein.

3. Lexington hereby grants unto Blue Grass Energy a non-exclusive franchise for the privilege of constructing, erecting, operating and maintaining an electrical energy distribution system upon, through, along, under and over the public streets, alleys, avenues, public roads, highways, sidewalks, and other public ways of the Lexington-Fayette Urban County Government in accordance with the terms of the Ordinance.

4. This Agreement shall commence on July 11, 2012, and shall expire on October 11, 2012 unless otherwise extended pursuant to the provisions of the Ordinance.

5. In consideration of the granting of this franchise, Blue Grass Energy agrees to pay to the Government a sum equal to three percent (3%) of

the gross annual revenues received by Blue Grass Energy from electric service within Fayette County as provided in the Ordinance.

6. Blue Grass Energy, its successors and assigns, in consideration of the grant, sale and conveyance of the above franchise, does hereby bind itself, its successors and assigns, to faithfully and fully perform each and every condition of said franchise as contained in this Agreement, and further to faithfully perform all acts required of it as the purchaser of said franchise.

7. This Agreement contains and embodies the entire agreement between the parties and shall be binding upon and inure to the benefit of the respective successors in interest to the parties hereto. No changes, modifications or other deletions in this Agreement shall be effective unless and until the same are reduced to writing and approved, adopted, and executed in the same fashion as this Agreement.

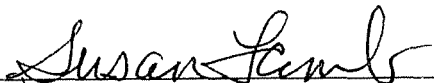
IN TESTIMONY WHEREOF, the Lexington-Fayette Urban County Government has caused its name to be affixed hereto by the Mayor and Blue Grass Energy Cooperative Corporation, has caused its name to be affixed hereto by Michael I. Williams, President/CEO, its properly authorized officer.

LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT

BY: _____


JIM GRAY, MAYOR

ATTEST:


SUSAN LAMB, COUNCIL CLERK

BLUE GRASS ENERGY COOPERATIVE CORPORATION

BY: *Michael I. Williams*
MICHAEL I. WILLIAMS, PRESIDENT/CEO

STATE OF KENTUCKY)
)
COUNTY OF JESSAMINE)

The foregoing Agreement was subscribed, sworn to and acknowledged before me by Michael I. Williams, as President/CEO of Blue Grass Energy Cooperative Corporation, on this the 10th day of July, 2012.

My commission expires: April 1, 2013

Howard Downey
NOTARY PUBLIC
KENTUCKY, STATE-AT-LARGE

STATE OF KENTUCKY)
)
COUNTY OF FAYETTE)

The foregoing Agreement was subscribed, sworn to and acknowledged before me by Jim Gray, as Mayor of Lexington-Fayette Urban County Government this 13th day of July, 2012.

My Commission Expires: November 10, 2012

Meredith Elaine Niff
NOTARY PUBLIC
KENTUCKY, STATE-AT-LARGE

ORDINANCE NO. 78-2012

AN ORDINANCE CREATING AND ESTABLISHING FOR BID A NON-EXCLUSIVE ELECTRIC FRANCHISE FOR THE PLACEMENT OF FACILITIES FOR THE TRANSMISSION, DISTRIBUTION AND SALE OF ELECTRICAL ENERGY WITHIN THE PUBLIC RIGHTS-OF-WAY OF FAYETTE COUNTY FOR A THREE (3) MONTH DURATION, WITH ADDITIONAL EXTENSIONS OF TIME NOT TO EXCEED SIX (6) MONTHS IF A LONG TERM FRANCHISE IS NOT OFFERED PRIOR TO EXPIRATION, IN RETURN FOR PAYMENT TO THE URBAN COUNTY GOVERNMENT OF THE SUM OF AT LEAST THREE PERCENT (3%) OF EACH FRANCHISEE'S GROSS ANNUAL REVENUES RECEIVED FROM ELECTRIC SERVICE PROVIDED WITHIN FAYETTE COUNTY; AND FURTHER PROVIDING FOR COMPLIANCE WITH RELEVANT LAWS, REGULATIONS AND STANDARDS; A PERFORMANCE BOND; INDEMNIFICATION; INSURANCE; ACCESS TO PROPERTY AND INSPECTIONS; REPORTING; AUDITS; NOTICE OF FILINGS WITH THE PUBLIC SERVICE COMMISSION; CANCELLATION OR TERMINATION; PENALTIES FOR VIOLATIONS; AND BID REQUIREMENTS; 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, a system or works for the generation, transmission and distribution of electrical energy from points either within or without the corporate limits of this Urban County, to this Urban County and the inhabitants thereof, and from and through this Urban County 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 poles or other structures, wires and other apparatus necessary for the operation of said system in, upon, over, under, across and along each and all of the streets, avenues, alleys, rights-of-way and public places (not including parks, greenways, and other public areas not traditionally used for public egress) within the present and future corporate limits of this Urban County (the "Rights-of-way"), subject to all the provisions 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"), or the provisions of its zoning ordinance, if applicable, 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, or a

(c) All construction shall be performed in a workmanlike manner, and all materials, equipment, and/or Facilities used or installed shall be in compliance with industry standards;

(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 unduly interfere with, or in any way damage the property of the Government or others under, on, or above the ground. The Company shall comply with all the laws of the Commonwealth of Kentucky and ordinances of the Government 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 such ordinances 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.

(e) The minimum clearance of wires and cables above the Rights-of-way and the placement of any underground facilities shall conform to accepted good engineering practices or national standards as recognized by the Kentucky Public Service Commission.

Section 5 – The Company shall comply with all of the requirements of the Code, and more specifically, Section 17C-19 of the Code and the provisions of the zoning ordinance, if applicable pertaining to Government 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 (\$100,000.00) 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 (\$200,000.00).

Section 7 – As consideration for the granting of this franchise, the Company agrees it shall defend, indemnify, and hold harmless the Government consistent with the

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 at the Government’s expense, have the right to inspect such books and records of the Company as are necessary for the Government to verify the accuracy of the amounts paid by the Company to the Government under this franchise. This provision shall survive the term of any franchise agreement awarded pursuant to this Ordinance for a period of one (1) year. 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. If such audit or review is performed in connection with the granting or renewal of a franchise, a sale or transfer of control, or a modification, 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. Any additional amount due to the Government as a result of the Government’s 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.

(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 base rates concurrent with said filing. Should the Government choose to intervene in such 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.

(c) The Company agrees to provide Government and/or it’s Council with information pertaining to its provision of services pursuant to this franchise upon reasonable request. This may include, but is not necessarily limited to attending public meeting(s) involving some or all of the Council in order to provide such information upon reasonable advance notice.

Section 11 - (a) The franchise hereby created is being offered to allow the Government to complete audits of its incumbent franchisees and draft a longer-term

expired and will not be renewed, the Company shall forfeit five hundred dollars (\$500.00) per day or part thereof that the violation continues;

(2) For failure to provide data and reports requested by the Government and as required by this Ordinance, the Company shall forfeit one 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 18 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. However, this provision shall not apply if interest is assessed by the Government pursuant to Section 19(c).

(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 – The Government reserves all rights it might presently have, or which it may hereafter acquire, to regulate the Company's rates and services. The parties acknowledge the general regulatory authority that the Kentucky Public Service Commission has been provided in this area. The rights of all subscribers are defined by the Customer Bill of Rights, which is contained in the Company's tariffs. The Company will abide by any all Commission orders and/or tariffs pertaining to service and operations in Fayette County. As further consideration for the granting of this franchise, the Company shall work with the Government to improve the identification and replacement or repair of

(1) It shall be a defense to any attempt to terminate and cancel the franchise that the Company was relying on federal law, state law, or a valid tariff in acting or not acting on the issue in dispute.

(2) 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.

(3) 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.

(4) If the Council determines such violation by the Company was without just cause, then the Council may, by resolution, 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 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 16 - It shall be the duty of the Mayor or his designee 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 publication or advertisement as required by law.

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.

Section 18 - (a) In consideration for the granting of the franchise the Company agrees to pay to the Government a franchise fee in a sum equal to three percent (3%) of the gross annual revenues received by the Company from electric service provided by the Company within Fayette County. The term gross annual revenues is intended to include revenue received from customers within Fayette County supplied under residential, commercial, industrial, public street and highway lighting, and other public authorities classifications. It shall also include any revenue that is otherwise derived from the use of the Company's facilities that are located in the Rights-of-way, if explicitly approved by the Kentucky Public Service Commission. The Company shall file all documents necessary for approval of this franchise agreement and/or its associated fees with the Kentucky Public Service Commission within ten (10) working days after the acceptance of the franchise by the Government, and shall provide the Government with copies of any such filed documents. 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) As further consideration for the granting of this franchise, the Company shall work with the Government to provide of redundant power feeds/lines sufficient to meet operational needs from separate power substations to all Government facilities housing security, communications, and or information technology services.

(c) As further consideration for the granting of this franchise, the Company shall permit the Government to utilize its pole, conduit, or raceway space at no charge when such space is vacant or available for public safety or governmental purposes. If such space is not available, then the Company shall make such space available on the most favorable terms extended to any other customer. This provision shall not supersede any existing or future agreement that the Government has with the Company pertaining to the use of the Company's space.

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.

(g) To the extent the Company actually incurs other reasonable incremental costs in connection with its compliance with the Government's ordinances; the Government agrees that the Company may recover such amounts from its customers pursuant to the terms of a tariff filed with and approved by the Kentucky Public Service Commission, if otherwise permitted by law.

Section 19 - (a) Payment of any amount due under this Ordinance shall be made on a monthly basis or quarterly basis within thirty (30) days of the end of the preceding payment period. Such payments shall be monthly unless the Company has historically paid the Government on a quarterly basis. In the event of suspension of the Company's obligation pursuant to Section 18(b) 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 18(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. Any additional amount due to the Government as a result of the Government's audit pursuant to Section 10(a) 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 payment period then in addition to making full payment of the relevant obligation, 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

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 a 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.

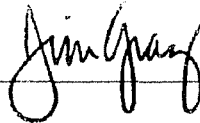
Section 27 - This Ordinance shall become effective on the date of its passage.

PASSED URBAN COUNTY COUNCIL: June 21, 2012

ATTEST:


CLERK OF URBAN COUNTY COUNCIL

MAYOR



PUBLISHED: June 22, 2012-1t

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BID FOR FRANCHISE

TO: LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
FROM: BLUE GRASS ENERGY COOPERATIVE CORPORATION - BIDDER
RE: BID FOR FRANCHISE FOR CERTIFIED TERRITORY OF BIDDER LOCATED WITHIN FAYETTE COUNTY, KENTUCKY (ORDINANCE 78-2012)

Blue Grass Energy Cooperative Corporation (herein designated as "Bidder") bids a sum equal to 3% of gross annual revenues received by the bidder from electric service provided by the bidder within Fayette County, Kentucky (as set forth in the Franchise Ordinance) and within the certified territory of bidder as recorded in the records of the Public Service Commission of Kentucky, Frankfort, Kentucky.

No deposit is required under Section 17 of Ordinance No. 78-2012 because the bidder already owns within the territorial limits of Fayette County, Kentucky equipment and facilities sufficient to render the service required by the ordinance.

Bidder states (as required by Section 20 of said ordinance) that it accepts the conditions set forth in Ordinance No. 78-2012 insofar as the ordinance is legally valid under all applicable laws (local, state and federal) and subject to all applicable requirements and regulations of the Kentucky Public Service Commission. A non-refundable payment of \$500.00 required by Section 17 (a) "to cover the Government's cost of advertising and other administrative expenses incurred" is attached.

The authority to bid for this franchise has been approved by the Kentucky Public Service Commission. A copy of the Franchise Ordinance is attached.

Dated: June 28, 2012.

BLUE GRASS ENERGY COOPERATIVE CORPORATION

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RCVD
PURCHASING

BY: J. Donald Mitchell
VP Finance + CFO

EXHIBIT B