



December 28, 2005

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PUBLIC SERVICE
COMMISSION

Honorable Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602

Subject: **Case No. 2005-00465 – Lebanon, KY Franchise
Atmos Energy Corporation**

Dear Ms. O'Donnell:

In accordance with the December 7, 2005 Order in the above-referenced Case, I have enclosed two (2) copies of the Franchise which has been awarded to Atmos Energy Corporation by the City of Lebanon, Kentucky.

If you have any questions regarding this matter, please contact me at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Gary L. Smith".

Gary L. Smith
Vice President,
Marketing and Regulatory Affairs

Enclosures

Cc: Bill Greer
Gil Morrison
Pat Mattingly
Randy Hutchinson
Vicky McDonald

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PUBLIC SERVICE
COMMISSION

FRANCHISE AGREEMENT

THIS **FRANCHISE AGREEMENT**, is made and executed this 12th day of December 2005 by and between the City of Lebanon, Kentucky (sometimes referred to herein as the "City") and Atmos Energy Corporation (referred to herein as "Franchisee").

WITNESSETH:

WHEREAS, the existing natural gas franchise between the City of Lebanon, Kentucky, and Atmos Energy Corporation expires March 10, 2006; and

WHEREAS, the Constitution of the Commonwealth of Kentucky, Sections 163 and 164, and Chapter 96 of the Kentucky Revised Statutes, authorize municipal corporations to require public utilities, including providers of natural gas within their boundaries, to operate under franchise agreements and to grant utilities the right to use public right-of-way on such terms and conditions as are deemed reasonable and necessary; and further KRS 82.082 authorizes the City to exercise any and all powers within its boundaries that are not in conflict with the Kentucky Constitution or state statutes; and

WHEREAS, in order to protect the health, safety and welfare of the citizens of the City, to protect and preserve the City's public right-of-way and infrastructure and to provide for the orderly administration of the franchise contemplated herein, it is necessary and appropriate to require the Franchisee to conduct its business and operations in a lawful manner in compliance with the terms and conditions set forth herein below; and,

WHEREAS, the City duly advertised, in accordance with all applicable law, a public notice of the sale of this franchise and solicited sealed bids therefore; and,

WHEREAS, the City has determined that Atmos Energy Corporation bid was the highest and best bid and pursuant to City Ordinance 05-10 is granting this franchise to Atmos Energy Corporation.

NOW, THEREFORE, FOR GOOD AND VALUABLE CONSIDERATION, THE RECEIPT AND SUFFICIENCY OF WHICH IS HEREBY ACKNOWLEDGED, THE PARTIES AGREE AS FOLLOWS:

Section 1. DEFINITIONS:

As used in this Agreement, the following words and phrases shall have the following meanings:

(A) "*Franchise*" shall mean the rights and privileges granted by the City to Franchisee under the terms and provisions of this Agreement.

(B) "*Franchisee*" shall mean Atmos Energy Corporation.

(C) "*Public Right-of- Way*" shall mean the surface, the airspace above the surface and area below the surface of any street, highway, alley, avenue, boulevard, sidewalk, pedestrian/bicycle lane or trail, driveway, bridge, utility easement or any other public ways owned, dedicated by plat, occupied or used by the public for vehicular or pedestrian transportation or access.

(D) "*Gross Revenues*" shall mean all gross cash receipts for Kentucky Public Service Commission Regulated Natural Gas Distribution Services for domestic, commercial or industrial consumption within the corporate limits of the City.

(E) "*Gas Distribution System*" shall mean the system of works, pipes, pipelines, facilities, fixtures, apparatus, lines, machinery, equipment, structures, appliances, appurtenances or other infrastructure reasonably necessary for the storage, transportation, distribution or sale of natural, artificial or mixed gas to residential and commercial customers and the public generally, within the corporate boundaries of the City.

(F) "*Force Majeure*" shall mean any and all causes beyond the control and without the fault or negligence of Franchisee. Such causes shall include but not be limited to acts of God, acts of the public enemy, insurrections, riots, labor disputes, boycotts, labor and material shortages, fires, explosions, flood, breakdowns of or damage to equipment of facilities,

interruptions to transportation, embargoes, acts of military authorities, or other causes of a similar nature whether or not foreseen or foreseeable which wholly or partly prevent Franchisee from performing one or more of its obligations hereunder.

Section 2. CREATION OF FRANCHISE:

(A) There is hereby created and granted unto Franchisee a non-exclusive franchise to enter upon, acquire, construct, operate, maintain and repair in the public right-of-way of the City, a gas distribution system within the corporate boundaries of the City, subject to the provisions of this Agreement. The franchise granted hereunder shall be extended to territories that are annexed within the City upon the same terms and conditions herein, subject to the approval of the state regulatory authorities, if any such approval is required.

(B) The franchise granted to Franchisee by the City shall not be exclusive and the City reserves the right to grant a similar franchise to any other person or entity at any time. In the event the City shall grant to another person or entity during the term hereof a franchise for a gas distribution system within the corporate boundaries of the City similar to the one herein granted to Franchisee, it is agreed that the terms of any such franchise agreement shall be no more favorable to such new additional Franchisee than those terms contained in this Agreement. Additionally, it is agreed that any such new/additional Franchisee shall have no right to use any portion of the gas distribution system of this Franchisee without this Franchisee's written consent.

Section 3. TERM OF FRANCHISE:

The franchise created herein shall be for a term of Twenty (20) years from the date of this Agreement.

Section 4. FRANCHISEE'S RIGHTS IN AND TO PUBLIC RIGHT-OF-WAY:

The Franchisee shall have the right and privilege of constructing, erecting, laying, operating, maintaining, replacing, removing and/or repairing a gas distribution system through, along, across and under the public right-of-way within the corporate boundaries of the City as it now

exists or may hereafter be constructed or extended, subject to the inherent police powers conferred upon or reserved unto the City and the provisions of this Agreement.

Section 5. OPERATION OF FRANCHISE SYSTEM; EXCAVATION OF PUBLIC RIGHT-OF-WAY:

(A) The gas distribution system of the Franchisee shall, at all times, be installed, operated and maintained in good working condition as will enable the Franchisee to furnish adequate and continuous service to all of its residential, commercial and industrial customers. The distribution system shall be designed, installed, constructed and replaced in locations and at depths which comply with all applicable federal and state laws and regulations regarding minimum safety standards for design, construction, maintenance and operation of gas distribution systems.

(B) The Franchisee shall have the right to disturb, break, and excavate in the public right-of-way of the City as may be reasonable and necessary to provide the service authorized by this franchise.

Section 6. DEGRADATION/RESTORATION OF PUBLIC RIGHT-OF-WAY:

(A) Public Improvement Projects: Franchisee shall, upon request by the City, remove, move, modify, relocate, reconstruct or adjust any of its gas distribution system located within public right-of-way, at its own expense, if the City, in its sole discretion, constructs, reconstructs, widens, alters, excavates, repairs, changes or improves any public right-of-way as part of any public improvement project.

(B) If the City requires the Franchisee to adapt or conform its gas distribution system or to in any way construct, reconstruct, remove, alter, relocate, adjust or change its system to enable any other person, firm, corporation or entity, whether public or private, other than the City, to utilize public right-of-way, Franchisee shall be reimbursed for all costs incurred by the Franchisee from the person, firm, Franchisee, corporation or entity requesting or required by the City to perform such change, construction, removal, repair, maintenance, alteration or

relocation.

Section 7. COMPENSATION FOR USE OF PUBLIC RIGHT-OF-WAY AND CONSIDERATION FOR FRANCHISE:

In consideration for the granting and exercise of the rights and privileges created under this franchise, and in further consideration of the grant to the Franchisee of the right to make use of public right-of-way within the City, Franchisee shall pay to the City annually, during the entire life of the franchise, a sum equal to:

One percent (1%) of its Gross Revenues as defined above. The Franchisee fee prescribed herein shall be paid to the City quarterly on or before the 30th day after the end of each calendar quarter after the effective date of the franchise, and the Franchisee shall furnish to the City quarterly a certified copy of Franchisee's gross revenues received, subject however, to the following conditions:

(a) Franchisee may add a line-item surcharge to the monthly bills of each of its customer located within the City, which surcharge may be designated as a city franchise fee, in an amount that is sufficient to recover the portion of the franchise fee paid by the Franchisee to the City that is attributable to the gross revenue derived by Franchisee from such customer.

(b) Franchisee may retain two percent (2%) of the total franchise fee that becomes due and payable hereunder in order to recover Franchisee's costs and expenses for the on-going administration of the payment of the franchise fee.

(c) Franchisee may also retain an amount equal to \$2.00 per each customer served by Franchisee in order to recover Franchisee's costs and expenses for preparing such customers' accounts to be handled in the manner required to calculate and surcharge each customer's portion of the total franchise fee that becomes due pursuant to this Agreement. Such \$2.00 per customer charge may be deducted from the first quarterly franchise fee payment and each subsequent

quarterly payment thereof until the total amount that may be retained by Franchisee has been collected.

The franchise fee provided herein, together with any charges of the City for water, sewage and garbage services provided by the City to Franchisee, and any occupational license fees payable to the city by the Franchisee, shall constitute the only amounts for which Franchisee shall be obligated to pay to the City and shall be in lieu of any and all other costs, levies, assessments, fees or other amounts, of any kind whatsoever, that the City, currently or in the future, may charge Franchisee or assess against Franchisee's property.

Section 8. ADDITIONAL REQUIREMENTS; INSURANCE AND INDEMNIFICATION:

(A) Insurance: During the term of this Agreement, Franchisee shall, at its own cost and expense, maintain Comprehensive General Liability Insurance. A certificate of insurance, evidencing said coverage, shall be provided to the City prior to commencement of the performance of this Agreement. Such policies or policies shall be in the minimum amount of Two Million Dollars (\$2,000,000.00) for bodily injury or death to one person, and Two Million Dollars (\$2,000,000.00) for bodily injury or death of any two or more persons resulting from one occurrence, Two Million Dollars (\$2,000,000.00) for property damage resulting from one accident, Two Million Dollars (\$2,000,000.00) for excess commercial liability, and Two Million Dollars (\$2,000,000.00) for workers' compensation employer liability. Franchisee shall provide any additional workers' compensation coverage in accordance with applicable law.

(B) Indemnification: Franchisee shall at all times indemnify and hold harmless the City from and against any and all lawful claims for injury to any person or property by reason of Franchisee's or its employees' failure to exercise reasonable care in installing, maintaining and operating Franchisee's natural gas system within the City. Provided, none of the provisions of this paragraph shall be applicable to the extent the City, its officials, officers, employees, contractors, or agents, were negligent and such negligence was the sole or contributing factor in bringing about the damages sued upon. That is to say, any judgment and all of the costs of

defense, including attorney fees, provided for above shall be apportioned between the City and the Franchisee based upon the percentage of fault assigned to each by a court of competent jurisdiction.

Section 9. TRANSFER OR ASSIGNMENT OF FRANCHISE:

Franchisee may transfer or assign the franchise created by this agreement to any other person, proprietorship, partnership, firm or corporation without the consent of the City, upon approval of the Kentucky Public Service Commission.

Section 10. CITY'S RIGHT OF INSPECTION AND ACCESS TO FACILITIES OF FRANCHISEE:

The City, through its City Commission, City Manager, City Engineer, City Attorney, or such other assistants as it may employ or designate, at all times reasonable, shall have access to, and the right to inspect, Franchisee's gas distribution system under this franchise and may inspect, examine or verify all or any of Franchisee's non-confidential (as determined from time to time by the Kentucky Public Service Commission) books and records that are necessary to confirm the accuracy of the amount of franchise fee being paid to the City.

Section 11. BREACH OF FRANCHISE; REMEDIES:

In the event of a substantial breach by Franchisee of any material provision of this agreement, the City may terminate the franchise and rights granted to Franchisee hereunder, provided, however, that such termination shall not be effective unless and until the procedures described below have been followed:

(A) The City must deliver to Franchisee, by certified or registered mail, a written notice signed by the Mayor, attested by the Secretary, and sealed with the official seal of the City. Such notice must (i) fairly and fully set forth in detail each of the alleged acts or omissions of Franchisee that the City contends constitutes a substantial breach of any material provision hereof, (ii) designate which of the terms and conditions hereof the City contends Franchisee breached, and (iii) specify the date, time, and place at which a public hearing will be held by the

governing body of the City for the purpose of determining whether the allegations contained in the notice did in fact occur, provided, however, that the date of such hearing may not be less than thirty (30) days after the date of such notice.

(B) Within ten (10) days following the adjournment of the public hearing described in Subsection 11(A) above, the City must deliver to Franchisee, by certified or registered mail, a written notice signed by the Mayor, attested by the Secretary, and sealed with the official seal of the City, setting forth (i) the acts and omissions of Franchisee described in the first notice that the governing body of the City determines to have in fact occurred and (ii) the specific terms and conditions of this agreement listed in the first notice that the governing body of the City determines to have in fact been breached by such acts or omissions of Franchisee.

(C) The City must permit Franchisee the opportunity to substantially correct all of the breaches hereof set forth in the written notice described in Subsection 11(B) above within sixty (60) days after Franchisee's receipt of such notice.

Section 12. FORCE MAJEURE:

Notwithstanding anything expressly or impliedly to the contrary contained herein, in the event Franchisee is prevented, wholly or partially, from complying with any obligation or undertaking contained herein by reason of any event of force majeure, then, while so prevented, compliance with such obligations or undertakings shall be suspended, and the time during which Franchisee is so prevented shall not be counted against it for any reason. The term "force majeure", as used herein, shall mean any cause not reasonably within Franchisee's control and includes, but is not limited to, acts of God, strikes, lockouts, wars, riots, orders or decrees of any lawfully constituted federal, state or local body, contagions or contaminations hazardous to human life or health, fires, storms, floods, wash-outs, explosions, breakages or accidents to machinery or lines of pipe, inability to obtain or the delay in obtaining rights-of-way, materials, supplies, or labor permits, temporary failures of gas supply, or necessary repair, maintenance, or replacement of facilities used in the performance of the obligations contained in this Agreement.

Section 13. SEVERABILITY:

If any section, subsection or provision of this ordinance or any part thereof is for any reason found unconstitutional or held to be in conflict with any applicable statute or rule of law, or is otherwise held to be unenforceable, the invalidity of any such section, subsection or provision shall not affect any or all other remaining sections and provisions of this ordinance, which shall remain in full force and effect.

Section 14. EFFECTIVE DATE OF Franchise; MUTUAL CANCELLATION OF PRIOR FRANCHISE:

The franchise created by this Agreement shall become effective on January 1, 2006. The existing franchise between the City and Atmos Energy Corporation which is scheduled to expire by its terms on March 10, 2006, is hereby mutually terminated by the parties effective as of December 31, 2005.

Section 15: GENERAL PROVISIONS

- A. Franchisee will repair any damage caused solely by Franchisee to any of the Public Rights-of-Way and will restore, as nearly as practicable, such property to substantially its condition immediately prior to the incident causing such damage.
- B. Franchisee shall use reasonable care in conducting its work and activities in order to prevent injury to any person and unnecessary damage to any real or personal property.
- C. Franchisee shall, when reasonably practicable, install all pipelines underground at such depth and in such manner so as not to interfere with the existing pavement, curbs, gutters, underground wires or cables or water or sewer pipes owned or controlled by the City.
- D. Franchisee may remove all or any part of its Gas Distribution System upon the expiration or termination of the franchise and rights granted hereby.
- E. This Agreement shall extend to, be binding upon, and inure to the benefit of, the parties hereto, and their respective successors and assigns.

- F. Any Ordinances of the City or portions thereof that are in conflict or inconsistent with any of the terms or provisions of this Agreement are hereby repealed to the extent of such conflict or inconsistency.
- G. The City, by granting of this franchise, does not surrender or to any extent, lose, waive, imperil, or lessen the lawful powers and rights now or hereinafter vested in the City under the constitution and statutes of the Commonwealth of Kentucky and under the Charter of the City; provided, however, that no ordinance, law, regulation or rule adopted or enacted by the City shall in any way impair, alter, lessen, modify or restrict the rights of the Franchisee under and established by this Agreement including, but not limited to, the use of the Public Rights-of-Way in connection with Franchisee's acquisition, construction, ownership, installation, laying, operation, maintenance, repair or removal of the Gas Distribution System.

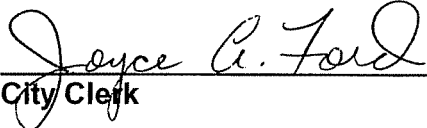
IN TESTIMONY WHEREOF, witness the signatures of the parties on this the day and date first above written.

CITY OF LEBANON, KENTUCKY

BY: _____



MAYOR

ATTEST:


City Clerk

ATMOS ENERGY CORPORATION

BY: _____


President, Kentucky Operations