

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
P. O. Box 615
Frankfort, KY 40602

August 8, 2011

Dear Mr. Derouen:

Pursuant to the Commission's Order of July 6, 2011 in Case No. 2011-00234, Columbia Gas of Kentucky, Inc. hereby notifies the Commission that it was a successful bidder on a gas franchise offered by the Lexington-Fayette Urban County Government ("LFUCG"). Two copies of the franchise agreement between Columbia and LFUCG are enclosed.

If you have any questions, please call me at (859) 288-0242 or email jmcoop@nisource.com. Thank you.

Sincerely,



Judy M. Cooper

Enclosures

RECEIVED

AUG 09 2011

PUBLIC SERVICE
COMMISSION

FRANCHISE AGREEMENT

THIS AGREEMENT made and entered into this 12th day of July, 2011, 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 **COLUMBIA GAS OF KENTUCKY, INC.**, a corporation created and existing under and by virtue of the laws of the Commonwealth of Kentucky, with its principal office at 2001 Mercer Road, Lexington, Kentucky 40512-4241 (hereinafter "Columbia").

WITNESSETH:

WHEREAS, by Ordinance No. 73-2011 (the "Ordinance"), enacted June 23, 2011, Lexington created a short-term non-exclusive franchise for the privilege of constructing, erecting, operating and maintaining a gas distribution system in Fayette County, Kentucky; and

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

WHEREAS, by Resolution No. 331-2011, enacted July 12, 2011, Lexington accepted the bid of Columbia as substantially responsive to the Ordinance and in the best interest of the citizens of Lexington-Fayette Urban County; and

WHEREAS, Lexington and Columbia 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, Lexington and Columbia agree as follows:

1. Ordinance No. 73-2011, 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 Columbia 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 Columbia a non-exclusive franchise for the privilege of constructing, erecting, operating and maintaining a gas 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 12, 2011, and shall expire on January 12, 2012 unless otherwise extended by the parties pursuant to the provisions of the Ordinance or the parties enter into another franchise agreement.

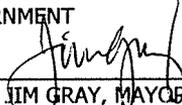
5. In consideration of the granting of this franchise, Columbia agrees to pay to Lexington a sum equal to three percent (3%) of the gross annual revenues received by Columbia from the sale, distribution, and/or delivery of gas within Fayette County.

6. Columbia, 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 Columbia Gas of Kentucky, Inc., has caused its name to be affixed hereto by Herbert Miller, its properly authorized officer.

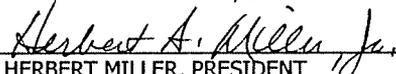
LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT

BY: 
JIM GRAY, MAYOR

ATTEST:


SUSAN LAMB, COUNCIL CLERK

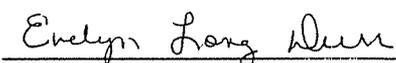
COLUMBIA GAS OF KENTUCKY, INC.

BY: 
HERBERT MILLER, PRESIDENT

STATE OF KENTUCKY)
COUNTY OF FAYETTE)

The foregoing Agreement was subscribed, sworn to and acknowledged before me by Herbert Miller, as President of Columbia Gas of Kentucky, Inc., on this the 22 day of July, 2011.

My commission expires: 5/15/14
419232


NOTARY PUBLIC
KENTUCKY, STATE-AT-LARGE

ORDINANCE NO. 73 -2011

AN ORDINANCE CREATING AND ESTABLISHING FOR BID A NON-EXCLUSIVE GAS FRANCHISE FOR THE PLACEMENT OF FACILITIES FOR THE TRANSMISSION, DISTRIBUTION AND SALE OF GAS FOR HEATING AND OTHER PURPOSES WITHIN THE PUBLIC RIGHTS-OF-WAY OF FAYETTE COUNTY FOR A SIX (6) MONTH DURATION, WITH AN ADDITIONAL EXTENSION 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 THE SALE, DISTRIBUTION, AND/OR DELIVERY OF GAS 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 (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 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 – As a condition of being granted this franchise, the Company agrees 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

(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.

(c) The Company agrees to provide Government and/or its 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 and providing an annual update to the council upon its request.

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 franchise to be offered for bid, and shall be for a period of six (6) months from the date of acceptance by the Urban County Council, with the option on the part of the Government to extend the period of time up to an additional six (6) months as necessary in order to accommodate the above. Any franchise agreement entered into pursuant to this ordinance will automatically expire upon the offering and acceptance of a longer-term franchise of the same nature. 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

(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 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 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. However, this provision shall not apply if interest is assessed pursuant by the Government pursuant to Section 20(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 - 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

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.

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

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

Columbia Gas[®]
of Kentucky

A NiSource Company

P.O. Box 14241
2001 Mercer Road
Lexington, KY 40512-4241

Lexington-Fayette Urban County Government
Division of Central Purchasing
200 East Main Street
Room 338
Lexington, KY 40507

July 7, 2011

HAND-DELIVERED

To Whom It May Concern:

Please find enclosed the bid of Columbia Gas of Kentucky, Inc. in response to the request for bids for a natural gas franchise as advertised in the June 30, 2011 issue of *The Lexington Herald-Leader*. Pursuant to Ordinance No. 73-2011, Section 18, the bid is submitted with a check in the amount of \$500.00.

If you have any questions please contact me at 288-0242 or e-mail jmcoop@nisource.com. Thank you for your assistance.

Sincerely,


Judy M. Cooper
Director, Regulatory Policy

Enclosures (Sealed Envelope)



BID OF COLUMBIA GAS OF KENTUCKY, INC.

To the Mayor and Urban County Council of Lexington-Fayette County, Kentucky:

Upon the terms and conditions hereinafter set forth, Columbia Gas of Kentucky, Inc., ("Columbia") submits the following bid for the gas distribution franchise authorized by the Lexington-Fayette Urban County Government ("Government") in Ordinance No. 73-2011 on June 23, 2011 and advertised in *The Lexington Herald-Leader* on June 30, 2011.

Columbia hereby accepts the terms and conditions of Ordinance No. 73-2011. In consideration of the granting of the franchise for sale, distribution, and/or delivery of natural gas within Fayette County, Columbia agrees to pay to the Government a sum equal to three percent (3%) of the gross annual revenues received from the sale, distribution, and/or delivery of gas within Fayette County.

Columbia represents and warrants that it has obtained a Certificate of Public Convenience and Necessity from the Kentucky Public Service Commission dated July 6, 2011, which authorizes it to bid on the subject franchise offered by the Government, as required under KRS 278.020 (3).

Columbia further represents and warrants that it presently owns plant, facilities and equipment within the corporate limits of the Government sufficient to render the service required by Ordinance 73-2011.

COLUMBIA GAS OF KENTUCKY, INC.

BY: _____

Herbert A. Miller, Jr.
President

