

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

RECEIVED

AUG 13 2012

PUBLIC SERVICE
COMMISSION

August 10, 2012

Dear Mr. Derouen:

Pursuant to the Commission's Order of July 2, 2012 in Case No. 2012-00280, 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

RESOLUTION NO 417-2012

A RESOLUTION ACCEPTING THE BID OF COLUMBIA GAS OF KENTUCKY, INC., IN ACCORDANCE WITH THE PROVISIONS OF ORDINANCE NO. 77-2012, CREATING AND OFFERING FOR SALE A SHORT TERM FRANCHISE FOR THE OPERATION OF A NON-EXCLUSIVE GAS DISTRIBUTION SYSTEM IN FAYETTE COUNTY, AND AUTHORIZING THE MAYOR, ON BEHALF OF THE URBAN COUNTY GOVERNMENT, TO EXECUTE A FRANCHISE AGREEMENT WITH COLUMBIA GAS OF KENTUCKY, INC., INCORPORATING THE TERMS AND CONDITIONS OF ORDINANCE NO. 77-2012.

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

Section 1 - That the bid of Columbia Gas of Kentucky, Inc., submitted in accordance with the provisions of Ordinance No. 77-2012, creating and offering for sale a short term franchise for the operation of a non-exclusive gas 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 Columbia Gas of Kentucky, Inc., 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 Columbia Gas of Kentucky, Inc., which is attached hereto and incorporated herein by reference, and which agreement incorporates by reference in its entirety the material provisions of Ordinance No. 77-2012 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 **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. 77-2012 (the "Ordinance"), enacted June 21, 2012, 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. 417-2012, enacted July 10, 2012, 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. 77-2012, 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 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 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, Columbia agrees to pay to Lexington a sum equal to at least three percent (3%) of the gross annual revenues received by Columbia in accordance with Section 19 of the Ordinance.

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

EXHIBIT "A"

ORDINANCE NO. 77-2012

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 THREE (3) MONTH DURATION, WITH AN 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 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 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 – 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

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.

(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 three (3) 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 two additional periods of three (3) months each 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 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 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 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 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 or publication as required by law.

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(s) and at the time(s) fixed by him or her in said advertisement(s) or publication(s) 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. Notwithstanding the above, any Company that had a previously existing franchise with the Government shall continue to pay the fees established pursuant to its previous franchise until the amounts payable issue is resolved.

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

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.

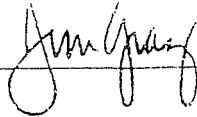
Section 27 - This Ordinance shall become effective on the date of its passage

PASSED URBAN COUNTY COUNCIL: June 21, 2012

ATTEST:


CLERK OF URBAN COUNTY COUNCIL

MAYOR



PUBLISHED: June 22, 2012-1t
X:\Case2\MAYOR\1 - CC0112\LEG\001442532.DOC

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. 77-2012 on June 21, 2012 and advertised in *The Lexington Herald-Leader* on June 22, 2012.

Columbia hereby accepts the terms and conditions of Ordinance No. 77-2012. 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 2, 2012, 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 77-2012.

COLUMBIA GAS OF KENTUCKY, INC.

BY: Herbert A Miller, Jr.
Herbert A Miller, Jr.
President

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

July 2, 2012

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 22, 2012 issue of *The Lexington Herald-Leader*. Pursuant to Ordinance No. 77-2012, 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)