

FRANCHISE AGREEMENT

THIS AGREEMENT, made and entered into this 30th day of August, 2006, by and between THE CITY OF OWINGSVILLE, KENTUCKY, a municipal corporation, (hereinafter the "City") and DELTA NATURAL GAS COMPANY, INC., a Kentucky corporation (hereinafter the "Franchisee").

WITNESSETH:

THAT, WHEREAS, pursuant to Ordinance No. 1-2006, the City advertised for and received bids for a franchise for the use and occupation of certain parts of the streets, alleys and public grounds in the City of Owingsville, Kentucky, for the transmission and distribution of natural gas energy; and

WHEREAS, the Franchisee has submitted the only bid for such franchise, which bid is satisfactory to the City in all respects; and

WHEREAS, pursuant to Ordinance No. 3-2006, the City has accepted the bid of the Franchisee and both parties hereto now desire to enter this Franchise Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth the parties hereto do hereby agree as follows:

Section I- Creation of Franchise

Franchisee, its legal representatives, successors and assigns, (hereinafter "Franchisee") be and is, subject to the conditions hereinafter contained, hereby authorized and empowered to acquire, purchase, construct, maintain and operate in and through parts of the present and future corporate limits of this City a system or works for the transmission, distribution and sale of natural gas from points either within or without the corporate limits



of this City, to said parts of the City and the inhabitants thereof, and from and through said parts of this City to persons and corporations beyond the limits thereof, and for the sale of same for light, heat, power and other purposes; and for such purposes to construct and maintain a system of mains, pipe lines, feeders, conduits, appurtenances, and other facilities necessary or convenient for the operation of said system, upon, across, under, and along each and all of the streets, alleys and public grounds, within the City; to have and to hold, as by law authorized, any and all real estate, easements, water and other rights necessary or convenient for its said purpose; to use any and all such streets, alleys and public grounds within said parts of this City while constructing or operating said natural gas system or works; and to cross any and all streets and public ways in the said parts of the City for the purpose of constructing, maintaining or extending such system of mains, pipe lines, feeders, conduits, appurtenances, and such other facilities as may be necessary or convenient for the proper distribution of natural gas in and through the City. If, after any main, pipe line, feeder, conduit or other structure or facility has once been erected or placed, in exercise of the authority herein granted, the City Council shall order the removal of said main, pipe line, feeder, conduit or other structure or facility to another location, the City shall pay the cost of making such relocation; except that, if the relocation is made necessary due to widening, regrading or reconstruction of a street or highway and a main, pipe line, feeder, conduit, appurtenance or other facility was originally installed in public right-of-way and is in public right-of-way immediately prior to the relocation, Franchisee will pay the cost of the relocation.



Section II - Term of Franchise

The Franchisee herein shall be for a term of ten (10) years from the date of this Agreement.

Section III - Operation and Maintenance

In the maintenance and operation of its transmission and distribution system in the streets, alleys and other public places and in the course of any new construction or addition to its facility, Franchisee shall proceed so as to cause the least possible inconvenience to the general public.

Section IV - Franchise Requirements

In addition to any other franchise requirements hereunder or made or adopted herein as provided, the following requirements shall apply to any franchise granted hereunder.

a) Franchise Fee - In consideration of the granting and exercise of a franchise herein, and in further consideration of the grant to the Franchisee the right to make use of public streets, alleys or other public ways in the City, since such public properties are valuable properties acquired and maintained at great expense to the taxpayers of the City, and the grant to Franchisee of the right to use same is a valuable property right without which the Franchisee would be required to invest substantial capital in right-of-way costs and acquisitions, Franchisee shall pay to the City during the entire life of the franchise a sum equal to three percent (3%) of the Franchisee's gross service revenues, for sales generated within the corporate limits. The franchise fee does not apply to gross revenues received by the Franchisee attributable to the sale, use, storage or other sale of natural gas to customers who use it in the course of manufacturing or industrial processing to the extent that the cost of all energy or energy producing fuels used by the customer exceeds three (3%) percent of



the cost of production. This exemption is only available to those customers who qualify for direct energy pay authorization by the Kentucky Department of Revenue under KRS 139.480(3). Franchisee shall pay such sum quarterly, on the 30th day after the end of each quarter and shall furnish to the City a statement setting forth the amount of its gross revenues received.

b) Any franchise payments to the City by Franchisee shall not be in lieu of any occupational, income, license, or property tax, or similar levy, assessment, fee, or charge which would otherwise be payable by Franchisee.

c) Upon acceptance of such franchise, Franchisee shall during the entire term of such franchise, maintain in full force and effect a single limit comprehensive liability policy of insurance with limits of not less than \$500,000 each occurrence and \$1,000,000 aggregate, and which shall insure Franchisee.

Section V

The Franchisee, its successors and assigns, shall have the right to sell gas to the consumers of the City and to receive for its service just and reasonable compensation subject to the terms and at the rates specified by the Public Service Commission of the Commonwealth of Kentucky. The Franchisee shall serve its consumers in the City in accordance with the rules, regulations, control, and supervision of the Public Service Commission of the Commonwealth of Kentucky and such other state or federal agency as may be authorized and empowered by law to regulate the Franchisee and its service.

Section VI

Franchisee shall provide service in accordance with accepted standards of the industry and regulated by the Kentucky Public Service Commission.



Section VII

Franchisee shall have the right to break, take up and remove such portion or part of any pavement to make such excavation in the streets and public ways of the City as may be deemed necessary to provide service so franchised hereby; provided, however, that any such work shall be performed in accordance with applicable ordinances of the City; and further provided that any such work or project so commenced by Franchisee hereunder be promptly and diligently prosecuted to completion and upon such completion the streets, alleys, sidewalks and public ways of the City shall exist in as good condition and repair as before such work was commenced.

Section VIII

The consideration paid by Franchisee hereunder shall be the full and complete consideration for the franchise, privilege, and right granted by the City, and shall be expressly in lieu of any street or alley rental or of any charge for the use or occupancy of said streets, alleys, or public places in the City.

Section IX

The franchise created hereby shall not be transferred, assigned, nor delegated without the written consent of the City, which shall not be unduly withheld by the City.

Section X

a) All notices, requests, demands and other communications required to be given under this Agreement shall be in writing and shall be deemed to have been given if hand delivered or mailed by certified mail, return receipt requested: (a) if to the City, to the City of Owingsville, c/o the Mayor, P. O. Box 639, Owingsville, Kentucky 40360; or (b) if to the Franchisee, to Delta Natural Gas Company, Inc., c/o the President, 3617 Lexington Road,



Winchester, Kentucky 40391; provided, however, that either party may, by notice in writing to the other substitute from time to time an official address for the receipt of such notices.

b) This Agreement contains the entire agreement between the parties hereto relating to the natural gas franchise and no warranties or representations are made by either party except as herein specified.

c) The City and the Franchisee may amend, modify, supplement or waive any provision of this Agreement in such manner as may be agreed upon in a written instrument executed by the City and Franchisee. No such amendment, waiver or modification shall be effective unless it is in writing and signed by the parties hereto.

d) Except as otherwise provided herein, any provision of this Agreement declared or rendered unlawful by a statute, court of law or regulatory agency with jurisdiction over the parties or either of them, shall not otherwise affect the other obligations of the parties under this Agreement.

e) A waiver by either party of any one or more defaults by the other in the performance of any provision of this Agreement shall not operate as a waiver of any future default.

f) Subject to the terms and conditions of this Agreement, this Agreement shall extend to and be binding upon the successors and assigns of the parties hereto.



IN WITNESS WHEREOF, the parties hereto have executed this Agreement by and through their duly authorized officers the day and year first above written, the City by its Mayor and Clerk as authorized in Ordinance 3-2006.

THE CITY OF OWINGSVILLE, KENTUCKY



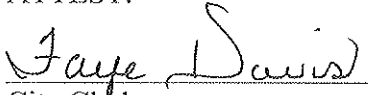
Mayor

DELTA NATURAL GAS COMPANY, INC.

By _____

Its Mgr - External Affairs

ATTEST:



City Clerk

