

GAS PURCHASE CONTRACT

Between

TEXAS AMERICAN ENERGY CORPORATION

by and through its unincorporated division,

Western Kentucky Gas Company

and

ORBIT GAS COMPANY

APPENDIX A

GAS PURCHASE CONTRACT

THIS GAS PURCHASE CONTRACT, hereinafter "Contract", is hereby made and entered into this 27 day of JUNE, 1985, by and between ORBIT GAS COMPANY, hereinafter referred to as "Seller", and TEXAS AMERICAN ENERGY CORPORATION, by and through its unincorporated division, WESTERN KENTUCKY GAS COMPANY, a Delaware corporation, hereinafter referred to as "Buyer".

WITNESSETH:

WHEREAS, SELLER represents that it owns and/or controls certain valid and subsisting natural gas interests in certain lands located within the Commonwealth of Kentucky which are productive of natural gas; and,

WHEREAS, BUYER desires to acquire a supply of natural gas for distribution through its natural gas transmission and/or distribution system; and,

WHEREAS, SELLER desires to sell natural gas to Buyer in the amounts and upon the terms and conditions herein set forth and subject to the terms and conditions hereof, and represents that it can and will so deliver natural gas to Buyer;

NOW, THEREFORE, in consideration of the promises and mutual covenants herein contained, the parties hereto do covenant and agree as follows:

ARTICLE I

Definitions

The following terms shall respectively have the meanings as set forth below:

(a) The term "gas" shall mean all natural gas which conforms to the standards of quality set out in this Contract.

(b) The term "cubic foot of gas", when used in relation to a quantity of gas, shall mean a volume determined in accordance with the provisions of Article V hereto, and the term "Mcf" shall mean one thousand (1,000) cubic feet of gas.

ARTICLE II

Quantity of Gas

Seller agrees, after completion of facilities to be constructed hereunder, if any, to sell and deliver to Buyer and Buyer agrees to purchase such quantity of gas as Seller makes available on any day, but not to exceed two thousand (2,000) Mcf per day.

ARTICLE III

Quality of Gas

The gas to be delivered by Seller shall be limited to gas produced within the Commonwealth of Kentucky, and it shall comply at all times with the following provisions:

1. The gas to be delivered hereunder shall be free from objectionable odors, dust or other solid, liquid or gaseous matters which might interfere with its merchantability or cause injury to or interference with proper operation of the lines, regulators, meters or other devices through which it flows.

2. The gas to be delivered hereunder shall contain less than one grain of hydrogen sulphide per one hundred cubic feet of gas and shall not contain more than twenty grains of total sulphur per one hundred cubic feet of gas. Mercaptan sulphur shall not constitute any portion of the allowable total sulphur content.

3. The gas to be delivered hereunder shall have an average heating value of one thousand (1000) British Thermal Units per cubic foot, saturated, at a pressure and temperature as specified in Paragraph 3 of Article IV, hereof. Variation from such heating value shall be not more than five percent (5%).

4. The gas to be delivered hereunder shall not be in excess of one hundred twenty (120) degrees Fahrenheit.

5. Seller may subject, or permit the subjecting of, the gas to compression, cooling, cleaning and other processes prior to its delivery to Buyer, but Buyer shall not be required to accept any gas so processed which:

- a. Fails to conform to the above provisions as to purity and quality;
- b. Has been produced from a well at a pressure less than atmospheric pressure;
- c. Contains in excess of 1% by volume of oxygen;
- d. Contains in excess of 3% by volume of carbon dioxide;
- e. Contains in excess of 5% by volume of nitrogen;

- f. Contains any additives or diluents which are objectionable to Buyer; or,
- g. Contains water vapor in excess of 7 pounds per one million cubic feet.

6. If the gas offered for delivery hereunder shall fail at any time to conform to any of the quality specifications herein set forth, Buyer shall notify Seller of such deficiency and may, at its option, refuse to accept further delivery pending correction by Seller.

ARTICLE IV

Measurements

1. The sales unit of the gas deliverable under this Contract shall be that sales unit used by Texas Gas Transmission Corporation in their deliveries to Buyer.

2. The volume of gas delivered by Seller hereunder shall be measured at Buyer's meter at the Delivery Point, as defined in Article VII, which, together with any buildings and other collateral equipment required for the determination of volume, Buyer agrees at its expense to install, maintain, and operate. All meters shall be operated and volumes computed in accordance with the most recent measurement practices as recommended by the American Gas Association.

3. The unit of volume for the purpose of measurement shall be one (1) cubic foot of gas at a temperature base of sixty degrees (60°) Fahrenheit and an absolute pressure of fourteen and seventy-three hundredths (14.73) pounds per square inch absolute (atmospheric pressure shall be assumed at fourteen and four-tenths (14.4) pounds per square inch absolute). The gas sold

hereunder shall be measured according to Boyle's Law for the measurement of gas under varying pressures with corrections for deviations therefrom determined as provided in the most recent edition of the American Gas Association Manual "Determination of Supercompressibility Factors for Natural Gas".

4. The temperature of the gas flowing through the meter or meters shall be determined by the Buyer once each month by a mercurial thermometer of standard manufacture, or at the option of the Buyer, by the use of a recording thermometer of standard manufacture installed by the Buyer and acceptable to the Seller and installed in such a manner that it will properly record the temperature of the gas flowing through the meter or meters. If a mercurial thermometer is installed, the most recent determination shall be used for the ensuing month to make the proper corrections in volume computations. If a recording thermometer is installed, then the arithmetic average of the readings from said thermometer for the entire period that gas has been flowing through the meter or meters shall be deemed to be the gas temperature for that period and shall be used to make the proper corrections in volume computations.

5. The specific gravity of the gas delivered hereunder shall be determined quarterly by a gravitometer of standard manufacture or, at the option of the Buyer, by the use of a recording type gravitometer to be installed, maintained and operated by Buyer at the point or points of delivery. If quarterly determinations are made, the latest determination shall be used for the ensuing quarter, but if a recording gravitometer be installed, then the arithmetical average of the daily specific gravity

recorded during the time gas is flowing through the meter or meters each period shall be used to make proper correction in volume computations.

6. The unit heating value of the gas is the number of British thermal units, hereinafter Btu's, produced by the combustion, at constant pressure, of that amount of gas that occupies a volume of one (1) cubic foot at a temperature of sixty (60) degrees Fahrenheit, saturated with water vapor and at an absolute pressure of fourteen and seventy-three hundredths (14.73) pounds per square inch absolute and under standard gravitational forces with air of the same temperature and pressure as the gas, when the products of combustion are cooled to the initial temperature of the gas and air, and when the water formed by combustion is condensed to the liquid state. The heating value shall be determined from time to time by Buyer or at the request of the Seller by submitting a sample of the natural gas to a competent testing laboratory of Buyer's choice or by using the heating value recorded by a Cutler-Hammer or any equally efficient recording calorimeter of Buyer located at Owensboro, Kentucky, or at such other place designated by the Buyer.

7. Seller may install, maintain, operate and remove such check measuring equipment as it desires, provided that such check meters and equipment shall be installed so as not to interfere with the operation of Buyer's meters through which Buyer receives gas at the Delivery Point(s).

8. In the event any measuring equipment is out of service or registering inaccurately in the sole opinion of Buyer, the volume of gas delivered hereunder shall be estimated (a) by using

the registration of any check measuring equipment if installed and accurately registering, or, (b) by correcting the error if the percentage of error is ascertainable by calibration test or mathematical calculation, or, (c) by estimating the quantity of delivery by comparison with deliveries during a period under similar conditions when the measuring equipment was registering accurately. The choice as to the above estimation methods shall be the Buyer's.

9. The accuracy of Buyer's measuring equipment shall be verified by Buyer at reasonable intervals, and if requested, in the presence of representatives of Seller, but Buyer shall not be required to verify the accuracy of such equipment more frequently than once in any thirty-day period. In the event either party shall notify the other that it desires a special test of any measuring equipment the parties shall cooperate to secure a prompt verification of the accuracy of such equipment. The expense of any such special test, if called for, shall be borne by Seller.

10. If, upon any test, any measuring equipment is found to be no more than two percent (2%) slow or fast, previous readings of such equipment shall be considered correct in computing deliveries of gas hereunder, but such equipment shall be adjusted at once to read accurately. If, upon test, any measuring equipment shall be found to be inaccurate by an amount exceeding two percent (2%) at a reading corresponding to the average rate of flow for the period since the last preceding test, such equipment shall be adjusted at once to read accurately and any previous reading of such equipment shall be corrected to zero error for any period which is known definitely or agreed upon. But in case the

period is not known definitely or agreed upon, such correction shall be for a period extending over one-half (1/2) of the time elapsed since the date of the last test not exceeding a correction period of sixteen (16) days.

11. Buyer and Seller shall have the right to be represented at and to participate in all tests of gas delivered hereunder or of any equipment used in measuring or determining the nature or quality of such gas and to inspect at any time during business hours any and all equipment of Buyer used for the measurement or determination of the nature or quality of gas hereunder.

12. All test data, charts and other similar records shall be preserved by Buyer for a period of at least one (1) year and shall on the request of Seller be available to Seller for inspection during normal business hours at Buyer's place of business.

ARTICLE V

Pressure

The gas sold under the terms of this Contract shall be delivered by Seller into Buyer's pipeline at the Delivery Point, as defined in Article VII, at a pressure sufficient to enter Buyer's pipeline, such pressure not to exceed three hundred (300) psig.

ARTICLE VI

Term of Contract

If and only if Seller installs and has ready for use, on or before 8:00 a.m., C.D.T., September 1, 1985, at its own expense, a compressor, dehydration facilities and such other

Is Buyer may reasonably require for acceptance into its system the natural gas hereunder, this Contract shall be effective from, 8:00 a.m., C.D.T., September 1, 1985 and shall continue and remain in full force and effect for a primary term of five (5) years, and shall continue after the expiration of the primary term from year to year thereafter until terminated as herein provided. Either party may terminate this Contract after the expiration of the primary term by giving the other party six (6) months written notice.

ARTICLE VII

Delivery Point

1. The Delivery Point for the gas delivered by Seller to Buyer hereunder shall be at, either, Buyer's:

- (a) 10-inch Nortonville-Elkton transmission line No. 159;
- (b) 4-inch St. Charles-Madisonville transmission line No. 157;
- (c) 6- and 10-inch Madisonville-Kirkwood Springs transmission line No. 114; or
- (d) 4-inch Sisk School-Madisonville transmission line No. 129, (note if this Delivery Point is selected, the pressure in Article V, hereof, is hereby modified to three hundred fifteen (315) psig, instead of three hundred (300) psig),

all being located in Hopkins and/or Christian County, Kentucky, such point being at a mutually agreeable location which is reasonable to and convenient to Seller's gathering system and Buyer's transmission system.

2. Seller shall have title to the gas deliverable hereunder and shall be in control and possession of and responsible for any damage or injury caused thereby until the same shall have been delivered to Buyer, after which delivery title to such gas shall pass to Buyer and Buyer shall be deemed to be in exclusive control and possession thereof and responsible therefor.

ARTICLE VIII

Prices

1. The price to be paid for gas delivered by Seller to Buyer under this Contract shall be determined as follows:

- a. With respect to that gas which Seller purchases under gas purchase contracts for resale and subsequently resells to Buyer, Buyer shall pay a price equal to the applicable area commodity rate then being paid by Buyer to its primary interstate natural gas supplier for such area (currently \$3.2527 per Mcf effective February 1, 1985).
- b. With respect to that gas which Seller produces and sells to Buyer in a first sale, Buyer shall pay a price which shall be the lower of (i) the applicable area commodity rate then being paid by Buyer to its primary interstate natural gas supplier for such area or (ii) the maximum lawful price per million British Thermal Units (MMBtu) for such gas as prescribed in the Natural Gas Policy Act of 1978, as amended.

c.) With reference to the commodity rate of Buyer's principal interstate supplier, any change in said rate shall become effective on the effective date of any change in said supplier's tariff, except that if said supplier collects an increase prior to Federal Energy Regulatory Commission, hereinafter "FERC", final approval of any tariff, the increase in price will be placed in escrow and within 30 days after the date of final approval the amount attributable to the finally approved increase in price will be paid to Seller for all gas purchased during the escrow period.

2. With respect to the natural gas mentioned in 1(b) of this Article VIII, the parties hereto will file with the appropriate jurisdictional agency, and with all other regulatory bodies having jurisdiction, any required application for price determinations which may be necessary in order to implement the terms herein. Pending final approval of the application, Buyer will pay Seller for such gas delivered prior to the effective date of such final approval the lower of (i) the then current, as of the date first hereinabove written, commodity rate of Buyer's primary interstate supplier, or, (ii) the maximum lawful price per MMBtu as described in Section 109 of the Natural Gas Policy Act of 1978, as amended.

3. With respect to the natural gas mentioned in 1(b) of this Article VIII, or any portion thereof, if the Congress of the United States, the President of the United States, FERC, or

any other governmental authority having jurisdiction, ceases to have jurisdiction or exercise control over the rates that may be lawfully charged and collected therefor, this gas commonly known as "deregulated gas", the price for such gas shall thereafter be the commodity rate of Buyer's principal interstate supplier.

ARTICLE IX

Payment and Statements

1. Payment shall be made by check payable to the order of the Seller, on or about the 20th day of each month for all gas sold and/or delivered during the preceding month. This check shall be accompanied by a statement showing the amount of gas sold during the same preceding month, together with a computation of the amount due Seller.

2. With respect to the gas referred to in Paragraph 1 (a) of Article VIII, Seller will pay or cause to be paid all royalties, taxes, Kentucky Severance Taxes, and all other sums due on production, gathering, or handling of such gas delivered by it to Buyer. With respect to the gas referred to in Paragraph 1 (b) of Article VIII, Seller will pay or cause to be paid all royalties, taxes, with the exception of the Kentucky Severance Tax, and all other sums due on production, gathering or handling of such gas delivered by it to Buyer. Buyer will collect the 4-1/2% severance tax levied by the Commonwealth of Kentucky on the gas referred to in Paragraph 1 (b) and remit it to the Kentucky Department of Revenue, said tax being deductible from the amount due Seller during each billing period.

3. Seller agrees to indemnify Buyer and save it harmless against all loss, damage and expense of every character on account of adverse claims to the gas delivered by it or of all royalties, taxes, and other sums due on production, gathering, handling or other charges thereon applicable before or upon delivery to Buyer.

ARTICLE X

Force Majeure

1. In the event of any party being rendered unable, in whole or in part, by force majeure or other causes herein specified, to carry out its obligations under this Contract, it is agreed that on such party's giving notice and reasonably detailed particulars of such force majeure in writing or by telegraph to the other parties within a reasonable time after the occurrence of the cause relied on, then the obligations of the party giving notice, so far as and to the extent that they are affected by such force majeure or other causes herein specified, shall be suspended during the continuance of any inability so caused, but for no longer period, and such cause shall so far as possible be remedied with all reasonable dispatch.

2. The term "force majeure" as used herein shall mean acts of God, strikes, lockouts, or other industrial disturbances, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrests, and restraints of the government, either federal or state, civil or military, civil disturbances, explosions, breakage or accident of machinery or lines of pipe,

freezing of wells or lines of pipe, inability of any party hereto to obtain necessary materials, supplies or permits, due to existing or future rules, regulations, orders, laws or proclamations, of governmental authorities (both federal and state), including both civil and military, any act or omission on the part of any purchaser or purchasers of gas from Buyer by reason of force majeure affecting such purchaser or purchasers, and any other causes, whether of the kind herein enumerated or otherwise, which are not reasonably within the control of the party claiming suspension. It is understood and agreed that the settlement of strikes or lockouts shall be entirely within the discretion of the party having the difficulty, and that the above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of opposing party when such course is inadvisable in the discretion of the party having the difficulty.

ARTICLE XI

Warranty of Title

Seller hereby warrants that it has good and clear title to the gas sold hereunder and that it has the exclusive right to sell the same, and that all such gas is free from all liens and adverse claims, including liens to secure payment of production taxes, severance taxes and other taxes. Seller agrees to indemnify Buyer and save it harmless from any and all suits, actions, debts, accounts, damages, costs, losses and expenses arising from or out of adverse claims of any or all entities to said gas or to royalties, taxes, license fees or charges thereon

which are applicable before the title to the gas passes to Buyer or which may be levied and assessed upon the sale thereof to Buyer. In the event any adverse claim of any character whatsoever is asserted in respect to any of said gas, Buyer may retain as security for the performance of Seller's obligations with respect to such claim under this section, monies then or thereafter payable to Seller under this Contract up to the amount of such claim, including interest, until such claim has been finally determined or until Seller shall have furnished bond to Buyer in an amount satisfactory to Buyer.

ARTICLE XII

Arbitration

1. In case the parties hereto shall be unable to agree on any question or dispute arising under this Contract, such question or dispute shall be referred for settlement to three arbitrators, one appointed by Seller, one appointed by Buyer, and the third appointed by the two individuals chosen by the parties hereto. The party desiring such arbitration shall notify the other in writing and in such notices shall name an arbitrator. The arbitrator to be appointed by the other party shall be named within ten (10) days after receipt of such written notice of arbitration, and an additional arbitrator shall, within ten (10) days of the appointment of the second arbitrator, be selected by the two (2) arbitrators heretofore appointed.

2. The matter in question or dispute shall be submitted in writing to the arbitrators immediately upon the completion of their appointments, and the parties shall do all things necessary to make proper submission thereof according to the

character of the question or dispute involved, or as required by the arbitrators. It is the intent of the parties hereto that only personnel qualified as specialists in their field arbitrate disputes or questions within their field. The decision in writing signed by a majority of the arbitrators shall be final and conclusive with respect to the matter submitted and the parties hereto agree to accept and abide by the same. The cost of any arbitration hereunder will be paid by the party requesting such arbitration.

ARTICLE XIII

Regulatory Bodies

This Contract shall be subject to all valid applicable state and federal laws, rules and regulations. All such laws, rules and regulations shall be presumed by both parties to be valid unless and until a court of competent jurisdiction shall hold otherwise with respect thereto.

ARTICLE XIV

Miscellaneous

1. No waiver by either party of any one or more defaults by the other party in the performance of this Contract shall operate or be construed as a waiver of any future default or defaults, whether of a like or a different character.

(a) Any notice, request, demand, statement or bill provided for in this Contract shall be in writing and shall be addressed to the post office address of each of the parties hereto, as the case may be as follows:

Buyer: Western Kentucky Gas Company
Attn: L. E. Van Meter II
Post Office Box 866
Owensboro, Kentucky 42302

Seller: Orbit Gas Company
Attn: Frank I. Lindsey
711 Leitchfield Road
Owensboro, Kentucky 42301

or to such other address as either party shall from time to time designate for that purpose by certified letter addressed to the other party. The date of service of such notice, request, demand, statement, or bill shall be the date the same is delivered by registered or certified mail by the party giving same.

(b) All the terms, covenants, agreements and obligations contained in this Contract shall run in favor of and be binding upon the parties hereto, their successors and assigns, and Buyer and Seller agree that no sale or assignment of the properties of Seller, shall be made unless the purchaser thereof shall assume and agree to be bound by this Contract, insofar as the same shall affect and relate to the property or interest sold or conveyed. It is agreed, however, that nothing contained herein shall in any way prevent the Buyer from pledging, or mortgaging its rights hereunder. Buyer may assign its interest in this Contract at any time to any affiliated company. Affiliated company herein shall be deemed to have the same meaning as set out in Section 1504 of the Internal Revenue Code of 1954, as amended.

2. Buyer and Seller shall with due diligence proceed in an expeditious manner to obtain all necessary federal, state, and local authorizations, permits, consents, licenses and approvals as may be required for the sale and delivery and the purchase and receipt of natural gas produced under the terms of this Contract,

and this Contract shall be subject to such approval. If Buyer and seller are unable to obtain such requisite authorizations on terms satisfactory to the party applying therefor not later than six (6) months from the date hereof, Buyer or Seller may, after thirty (30) days prior written notice, terminate this Contract unless, before the expiration of such thirty (30) day period, Buyer and Seller have received and accepted such requisite authorizations, in which event the notice of cancellation shall be null and void and of no force and effect.

3. This Contract may be executed in a number of counterparts, each of which shall be considered an original.

4. This writing is intended by the parties as a final expression of their agreement and is intended also as a complete and exclusive statement of the terms of their agreement. No course of prior dealings between the parties shall be relevant to supplement or explain any term used in this Contract. Acceptance or acquiescence in a course of performance rendered under this Contract shall not be relevant to determine the meaning of this Contract even though the accepting or acquiescing party has knowledge of the nature of the performance and opportunity for objection.

5. This Contract may be modified, amended, rescinded, or terminated only by a writing signed by Buyer and Seller or their duly authorized agents.

IN WITNESS WHEREOF, this instrument is executed as of the date first hereinabove written.

Attest:

SELLER: ORBIT GAS COMPANY

Orla Mc Connell
Secretary

By:

Frank R. Lindsey

Title: President

Attest:

BUYER: TEXAS AMERICAN ENERGY CORPORATION
by and through its unincorporated division
Western Kentucky Gas Company

W. R. ...
Vice President
Western Kentucky Gas

By:

Charles R. ...

Title: Vice President - Utility Operation