

FRANCHISE AGREEMENT

This Franchise Agreement ("Agreement") is hereby made and entered into this 7TH day of MAY, 2003 by and between the City of LYNCH in the Commonwealth of Kentucky ("City") and KENTUCKY UTILITIES COMPANY ("Company").

WITNESSTH:

WHEREAS, the City adopted an Ordinance (# 040703) on APRIL 7, 2003, pursuant to which the City has awarded the Company an exclusive franchise ("Franchise") over the public rights-of-way within the City's corporate limits, subject to and in accordance with the terms of this Agreement; and

WHEREAS, the above-referenced Ordinance requires that the City and the Company execute this Agreement;

NOW, THEREFORE, in consideration of the faithful performance and strict observance by the Company and the City of all terms, provisions, conditions, obligations and reservations set forth herein, it is hereby agreed between the parties as follows:

1. Reaffirmation of Grant and Acceptance. The City hereby reaffirms its grant to the Company of the Franchise and rights to construct, operate, maintain, install, use and lay pipes, wire, manholes, ducts, structures, stations, towers, amplifiers, poles, overhead conductors and devices, underground conductors and devices, transformers, and any other apparatus, equipment and facilities (collectively, "Equipment") necessary, essential, and/or used or useful to the distribution and sale of electric service through the City and to any other town or any portion of the county or to any other county ("Services").

Additionally, the Company shall have the right to use the streets with its service and maintenance vehicles in furtherance of the Franchise. Prior to beginning the construction or installation of any new Equipment under the Franchise, the Company shall obtain any necessary governmental permits for such construction or installation, copies of which it shall provide to the



City. Work performed by the Company under the Franchise shall be performed in a workmanlike manner and in such a way as not to unnecessarily interfere with the public's use of City streets. Whenever the surface of any City street is opened, it must be restored at the expense of the Company within a reasonable time to a condition comparable to what it was prior to the opening thereof.

2. Definitions. Terms not defined but referred to herein shall be construed to reflect a common usage or the common usage as would apply in the electric service industry.

3. Term of Franchise; Termination. The Franchise shall be exclusive and shall continue for a period of twenty years from and after the effective date of this Agreement, as set forth in Section 5. The Company may, at its option, terminate the Franchise and this Agreement upon five (5) days' written notice if (a) the City breaches any of its obligations hereunder and such breach is not cured within thirty (30) days of the Company's notice to the City of such breach; (b) the Company is not permitted to pass through to affected customers all fees payable by it under Sections 9 and 10 herein; or (c) the City creates or amends any ordinance or regulation which, in the Company's sole discretion, would have the effect of (i) substantially altering, amending or adding to the terms of this Agreement, (ii) substantially impairing the Company's ability to perform its obligations under the Franchise in an efficient, unencumbered and profitable way; or (iii) preventing the Company from complying with applicable statutes or regulations, rules or orders issued by the Kentucky Public Service Commission. Without diminishing the Company's rights under this Section 3, the City agrees that to the extent it desires to pass or amend an ordinance or regulation which could have the effect of substantially (i) altering, amending, or adding to the terms of this Agreement; (ii) impairing the Company's ability to perform its obligations under the Franchise in an efficient, unencumbered and profitable way; or (iii) preventing the Company from complying with applicable statutes or

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regulations, rules or orders issued by the Kentucky Public Service Commission, that it will first discuss such proposed ordinance or regulation with the Company and the parties shall negotiate in good faith regarding the same.

4. Territorial Extent of the Franchise. The Company is authorized to operate throughout all the territory within the corporate limits of the City for which it has a certificate of public convenience and necessity under state law.

5. Effective Date. This Agreement shall become effective 90 days after the execution hereof.

6. Compliance With City Regulations. Subject to Section 3 hereof, the Company will comply with all applicable provisions of lawful City ordinances and regulations (including any amendments thereto), unless such provisions (i) conflict with or impair the Company's ability to comply with any rule, regulation or order issued by the Kentucky Public Service Commission related to the Company's rates or services, or otherwise (ii) are preempted by the action of any authority with jurisdiction over the Company. To the extent any such provision requires the Company to incur costs in excess of those identified under either "Fee Option 2" or "Fee Option 3" set forth in Section 9 below, the Company shall be required to comply therewith only if and to the extent the Company is authorized by the Kentucky Public Service Commission (or its successor) to pass through such costs to the entities served by it inside the City's corporate limits.

7. Rights Reserved by City. Subject to the above provisions, the Franchise is expressly subject to the right of the City: (i) to repeal the same for misuse, nonuse, or the Company's failure to comply with applicable local, state or federal laws; (ii) to impose such other regulations as may be determined by the City to be conducive to the safety, welfare and



morals of the public; and/or (iii) to control and regulate the use of its streets, roads, alleys, bridges, public places and space about and beneath them.

8. Liability and Indemnification. The Company shall indemnify, defend, and hold harmless the City from and against claims by third parties asserted against the City that the Company's use of the public streets or the presence or operation of the Company's Equipment on or along said streets has caused damage to tangible property or bodily injury, if and to the extent such damage or injury is not caused by the City's negligence or misconduct.

9. Franchise Fees. As compensation for the Franchise granted to the Company, the City shall receive payment in accordance with one of three payment options, as set forth below. The City must notify the Company of the option it has selected within 10 days after the execution of this Agreement.

Fee Option 1: a total annual fee of up to three (3) percent of gross receipts per year from the Company's sale of electricity to electricity-consuming entities inside the City's corporate limits; *provided, however,* that such fee shall be payable by the Company only if and to the extent the Company is authorized by the Kentucky Public Service Commission (or its successor) to pass through such fee to the entities served by it inside the City's corporate limits; *and provided further* that prior to submitting an invoice to the Company for the above-referenced fee, the City shall provide the Company a list, in electronic format, of all electricity-consuming entities within the City limits that are to be served by the Company, which list shall be updated at least quarterly. The City shall provide the Company an updated list, in electronic format, quarterly. .

Fee Option 2: A total fixed annual payment, as set forth below.



Fee Option 3: A total one-time payment, as set forth below, payable on the date this Agreement is executed.

Class of City Ranking	Option 2 Annual Payment Per City	Option 3 One-time Payment Per City
2nd Class	\$ 1,000	\$ 6,240
3rd Class	\$ 500	\$ 3,120
4th Class	\$ 300	\$ 1,872
5th Class	\$ 200	\$ 1,248
6th Class	\$ 100	\$ 624

10. Other Fees. Any other fees assessed to the Company in connection with the Company's use of the City's public ways, including fees associated with permits and licenses of whatever nature, shall be payable by the Company only if and to the extent the Company is authorized by the Kentucky Public Service Commission (or its successor) to pass through such fees to the entities served by it inside the City's corporate limits

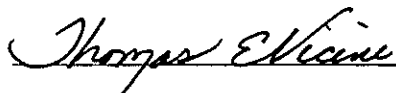
11 Insurance Bonds. The Company shall maintain in force through the term of the Franchise both general liability insurance and motor vehicle insurance, in accordance with all applicable laws and regulations.

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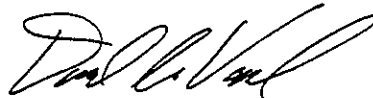


12. Rate Regulation. The Company agrees to charge such rate or rates as may from time to time be fixed by the Public Service Commission of Kentucky or any successor regulatory body.

Agreed to this 7TH day of MAY, 2003.



Mayor, City of LYNCH _____



Vice President, RETAIL AND GAS STORAGE
OPERATIONS

