

FRANCHISE AGREEMENT

THIS AGREEMENT made and entered into this 11th day of April, 2013, 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 **DELTA NATURAL GAS COMPANY, INC.**, a corporation created and existing under and by virtue of the laws of the Commonwealth of Kentucky, with its principal office at 3617 Lexington Road, Winchester, Kentucky 40391-9797 (hereinafter "Delta").

WITNESSETH:

WHEREAS, by Ordinance No. 34-2013 (the "Ordinance"), enacted March 21, 2013, Lexington created a 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 Delta submitted a timely bid to acquire said franchise; and

WHEREAS, by Resolution No. 150-2013, enacted April 11, 2013, Lexington accepted the bid of Delta as substantially responsive to the Ordinance and in the best interest of the citizens of Lexington-Fayette Urban County; and

WHEREAS, Lexington and Delta 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 Delta agree as follows:

1. Lexington-Fayette Urban County Government Ordinance No. 34-2013, 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, except as provided in paragraph 2, below.

2. The bid of Delta 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. Lexington accepts the conditions outlined by Delta in its bid, which pertain to Sections 11(e), 13, and 20(a) of the Ordinance.

3. Lexington hereby grants unto Delta 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 and the above bid.

4. This Agreement shall commence on April 11, 2013, and shall expire as provided in the terms and provisions of the Ordinance.

5. In consideration of the granting of this franchise, Delta agrees to pay to Lexington a sum equal to three percent (3%) of the gross annual revenues received by Delta from the sale, distribution, and/or delivery of gas within Fayette County' until such time as the fee may be increased by the Urban County Council pursuant to the terms and provisions of the Ordinance.

6. Delta, 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 Delta Natural Gas Company, Inc., has caused its name to be affixed hereto by John B. Brown, its properly authorized officer.

LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT

BY: _____


JIM GRAY MAYOR

ATTEST:

Susan Lamb

SUSAN LAMB, COUNCIL CLERK

DELTA NATURAL GAS COMPANY, INC.

BY: *John B. Brown*

JOHN B. BROWN
TITLE: Chief Financial Officer,
Treasurer and Secretary

STATE OF KENTUCKY)
)
COUNTY OF Clark)

The foregoing Agreement was subscribed, sworn to and acknowledged before me by John B. Brown, as Chief Financial Officer, Treasurer and Secretary of Delta Natural Gas Company, Inc., who represents that he is duly authorized to execute this agreement, on this the 8th day of April, 2013.

My commission expires: 6/20/16

Emily P. Bennett

NOTARY PUBLIC
KENTUCKY, STATE-AT-LARGE



ORDINANCE NO. __34 __-2013

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 FOR AN INITIAL PERIOD OF FIVE YEARS WITH UP TO TWO RENEWAL PERIODS OF FIVE YEARS EACH; 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 SERVICES PROVIDED WITHIN FAYETTE COUNTY, WITH THE ABILITY TO BE RAISED TO FIVE PERCENT (5%); 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". The Lexington-Fayette Urban County Government shall hereinafter be referred to as "Lexington", or the "Government". The applicable definitions and terminology contained in the provisions of the Code and/or the Zoning Ordinances shall apply.

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 Lexington 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 Lexington, including but not limited to those contained in the Code.

Section 4 – In the operation of its 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 (as may be amended), 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 Lexington; 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 Lexington and others, and shall not interfere with, or in any way injure the property of Lexington 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 (as may be amended), 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 Chief Administrative Officer of Lexington or his or her designee upon discussing and verifying the scope of such a project with the Company, and shall be in favor of Lexington 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 or by law.

Section 7 – As consideration for the granting of this franchise, the Company agrees to defend, indemnify, and hold harmless Lexington consistent with the indemnification and hold harmless provisions as set forth in Section 17C-17 of the code, or as it may be amended in the future. The obligation to defend, indemnify and hold harmless does not include defending, indemnifying, and holding harmless Lexington for its own negligent acts or intentional acts.

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 Lexington from the insurance company.

Section 10 – (a) Lexington, through its Mayor or his designee, or through such assistants as Lexington 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 System under this franchise and located within the Rights-of-way. In like manner, Lexington'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 Lexington determines that it desires an audit of this franchise, the Company agrees to comply with all reasonable requests of Lexington pertaining to obtaining any necessary information or documentation from the Company reasonably necessary to the administration of this franchise, subject to any reasonable confidentiality agreement. The Company has the right, at all reasonable times and under reasonable conditions with prior notice, to have access to all or any of the property, including financial records, accounts, books records, contracts, documents, or papers, including such records of any auditor, consultant or other contractor of Lexington's relating to Lexington's audit, computation or re-computation of any fees established under this ordinance and the administration of this franchise, subject to any reasonable confidentiality agreement.

(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 Lexington choose to intervene in the Commission action, the Company shall not oppose such intervention, and Lexington shall be given access to records related to said application, as required by the Commission.

(c) The Company agrees to provide Lexington and/or its Council with information pertaining to its provision of services pursuant to this franchise upon reasonable request. This shall include, but is not necessarily limited to, attending official public meeting(s) at which some or all the Councilmembers are in attendance (in order to provide such information upon reasonable advanced notice) and providing an annual update to the Council upon its request.

Section 11 - (a) The franchise hereby created shall be for an initial period of five (5) years from the date of acceptance by the Urban County Council.

(b) This franchise may be renewed for up to two (2) additional terms not to exceed five (5) years each upon the request of the Company and the approval of the request by the Urban County Council. The request shall be made in writing to Lexington's Mayor and Vice-Mayor at least one hundred eighty (180) days, but no earlier than one (1) year, in advance of the termination date of the Company's franchise agreement. The ultimate decision of whether to grant an additional franchise term shall solely be that of the Government.

(c) In addition, the term of the franchise may be extended up to twelve (12) months by agreement of the parties in order to provide for the good faith negotiation of a new franchise.

(d) This franchise is not exclusive, and the Government reserves the right to grant similar franchises to more than one Company. All franchises awarded pursuant to this Ordinance are intended to terminate at the same time. Therefore any other Company awarded a franchise pursuant to this Ordinance shall only be awarded a franchise that is equal in duration to the remaining term of the initial franchise(s).

(e) 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, Lexington 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.

(f) No assignment of this franchise or the System subject to this franchise shall take place without at least sixty (60) days advance written notice to Lexington, and consent by Lexington, which consent shall not be unreasonably withheld. In the event that such an assignment is subject to the jurisdiction of the Public Service Commission, the Company agrees not to object to Lexington's intervention in any action before the Public Service Commission on this subject.

(g) The Company shall not object to Lexington's intervention in any action before the Public Service Commission involving the transfer of control of the Company.

(h) 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 Lexington in writing within ten (10) business days of such filing. Lexington 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. Lexington 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 Lexington's Chief Administrative Officer or his designee, Lexington determines that the Company has violated any of the following provisions of this Ordinance, the following penalties shall be recoverable. The above-determination, which must be in writing and provide the basis for the decision, shall be the final administrative decision, which 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 Lexington 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 Lexington 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 Lexington 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 by Lexington 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 Lexington, 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 Lexington 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 continue to 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 Lexington by virtue of the franchise or otherwise, Lexington, 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 Lexington 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 Lexington;

(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 Lexington. 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) Prior to attempting to terminate or cancel this franchise pursuant to this section, the Mayor or his designee, or the Urban County Council shall make a written demand that the Company do or comply with any such provision, rule, order or determination. If the alleged violation of Section 14(a), 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, Lexington may place its request for termination of the franchise as early as the next regular Council meeting agenda. Lexington 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 accordance with any applicable laws.

(b) 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, Lexington 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 in accordance with any applicable laws.

(1) The Council shall consider the request of the Government and shall hear any person interested therein, and shall determine in its reasonable discretion, whether or not any alleged violation by the Company occurred or 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 Lexington 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 an assignment of the franchise has taken place, and the provisions of Section 11 of this Ordinance, governing the consent of the Council to such assignment, shall apply.

Section 16 – (a) 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:

(1) 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.

(2) 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.

(b) The Company shall have the right to cancel this franchise upon any act of bankruptcy, receivership, reorganization, application for the appointment of a receiver, or any other initiation of insolvency proceedings on behalf of, or against, Lexington. Notwithstanding the foregoing, and subject to an order of an appointed trustee or receiver, Lexington does not waive the ability to claim that the Company is still required to pay Lexington a franchise fee in order to maintain its System or Facilities in the Rights-of-way.

Section 17 - It shall be the duty of the Mayor or his designee as soon as practicable after the passage of this Ordinance to offer for sale at public auction said franchise and privilege. In the event that additional interested bidders are identified or express an interest in obtaining a franchise after this initial offering, the additional offering and advertisement to accommodate such bidders is hereby authorized. 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 and at the time fixed by him or her in said publication or advertisement 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 Urban County Council reserves the right, for and on behalf of Lexington, 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.

(a) Each bid shall be accompanied by a nonrefundable payment to Lexington in the amount of five hundred dollars (\$500.00) to cover its cost of advertising and other administrative expenses incurred.

(b) In addition, any bid submitted by an entity or person not already owning within the territorial limits of Fayette County a plant, equipment, and/or Facilities sufficient to render the service required by this Ordinance must 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. Lexington reserves the right to review any of bidder's supporting documentation which justifies bidder's determination of said estimated cost.

Section 19 - (a) In consideration for the granting of the franchise the Company agrees to pay the franchise fee as provided herein which shall automatically be

established in an amount of three percent (3%) of the gross annual revenues received by the Company for the direct sale, distribution, and delivery of natural gas provided by the Company within Fayette County and rendered on its bills (excluding nonrecurring charges as defined in Chapter 807 of the Kentucky Administrative Regulations Section 5:006, now or as hereafter amended) unless Lexington establishes the franchise fee in a different amount pursuant to this section. Lexington reserves the right at any time, and upon reasonable notice, during the effective period of the franchise to be awarded hereby to impose upon the Company a franchise fee in an amount not to exceed five percent (5%), inclusive of the permitting fees provided in subsection 19(c), below, of the gross annual revenues as defined herein. At a minimum, the franchise fee is intended to apply to gross revenues related to those services which include the franchise fee as part of the tariff filed with the Public Service Commission as of the date of the adoption of this Ordinance, and the Company expressly agrees that it will continue to pay franchise fees on the gross revenues derived from these services for the duration of this franchise. The Company will also assess and pay the franchise fee on any such gross revenues from revised, amended, or additional tariffs (except for nonrecurring charges in Fayette County) unless Lexington specifically indicates that it does not want the fee to apply, and subject to any necessary approval by the Public Service Commission. 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 Lexington under the terms of its existing tariff and/or franchise until such time as this tariff approval is obtained.

(b) The parties acknowledge and agree that the natural gas supplied by certain large volume suppliers is not currently included as part of the gross revenues to which the franchise fee is applied. In the event that Lexington determines during the franchise period that it wishes to pursue the collection of the franchise fee from these suppliers through the Company, it will notify the Company, in advance, of the methodology and procedures for such collection, and be subject to any necessary approval of the Public Service Commission.

(c) Pursuant to Section 17C-22 of the Code, as may be amended, the Company is also required to pay Lexington an additional amount intended to adequately compensate

Lexington for its permitting and inspection of the Company's construction activities in the Rights-of-way. This amount is to be paid separately to Lexington 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 and remitted to Lexington quarterly. Notwithstanding the foregoing, the Company may elect to pay for its permit fees upon application for each respective permit upon approval of the person specified in Chapter 17C of the Code. These permitting fees are subject to change during the term of the franchise based upon an audit of the actual cost of permitting for Lexington, 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.

(d) No later than ten (10) working days after final acceptance of its bid by Lexington, or any subsequent notification of any change in the amount of the fees in this Section 19, 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 Lexington 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.

(e) 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 Lexington 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, Lexington 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 Lexington shall continue to pay the fees established pursuant to its previous franchise.

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. Upon request, and provided the Company has the capability to do so without additional cost, Company shall deposit such payments electronically to an account specified by Lexington. In the event of suspension of the Company's obligation pursuant to Section 19(e) 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 Lexington 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 Lexington may have for future or additional sums pursuant to this Ordinance. Lexington 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. The Company shall respond to a reasonable request for information related to obtaining audit information within ten (10) business days unless agreed otherwise by the parties. This provision shall survive the term of any franchise agreement awarded pursuant to this Ordinance for a period of one (1) year. Any additional amount due to Lexington as a result of the audit shall be paid within ten (10) days following written notice to the Company by Lexington which notice shall include a copy of the audit report. If as a result of such audit or review Lexington 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 Lexington 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 Lexington 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 Lexington or the Company shall be an adjustment on the next monthly payment at an annual rate of interest of eight percent (8%).

(d) With respect to its billing of Lexington, Company agrees to the following:

(1) Work with Lexington, without legal obligation, to improve electronic data sharing of billing information;

(2) Provide a monthly excel spreadsheet sent electronically for the purposes of energy management. The file shall contain the account number, address, billing month, consumption volume and total cost of service for each account billed to Lexington; and

(3) Upon request, an explanation of any and all billing adjustments or credits including the account(s) impacted and any and all late payments.

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.

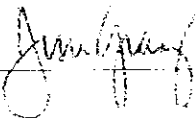
Section 24 - This Ordinance and any franchise awarded pursuant to it does not create a contractual relationship with or right of action in favor of a third party against either Lexington or the Company.

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: March 21, 2013

MAYOR 

ATTEST:


CLERK OF URBAN COUNTY COUNCIL

PUBLISHED: March 26, 2013 -lt

**Delta Natural Gas Company, Inc.**

3617 Lexington Road
Winchester, Kentucky 40391-9797



www.deltagas.com

PHONE: 859-744-6171

FAX: 859-744-3623

April 8, 2013

Hon. Jim Gray, Mayor
Lexington-Fayette Urban County Government
Division of Central Purchasing
200 East Main Street
Room 338
Lexington, KY 40507

Re: Ordinance No. 34-2013

Dear Mayor Gray:

In response to Ordinance No. 34-2013 Delta Natural Gas Company, Inc. ("Delta" and/or the "Company") submits the following bid:

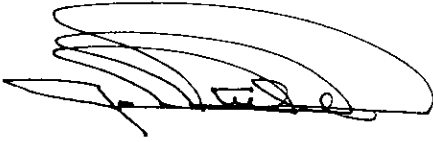
1. During the Term of the franchise, Delta shall pay an amount not to exceed five percent (5%) of the gross annual revenues received by the Company from the sale, distribution and/or delivery of natural gas within Fayette County, inclusive of the permitting fees provided in subsection 19(a).
2. Delta accepts the conditions set forth in Ordinance No. 34-2013, except as stated below.
3. Delta shall be exempt from Section 11(h) of the Ordinance relating to notice to the Government and an opportunity to bid on a sale of assets of Delta. The common stock of Delta is publicly traded and Delta has no parent company. Given that Delta has only approximately 573 customers in Fayette County, it is not likely the Government will be interested in bidding on a sale of Delta's assets.
4. Delta shall be exempt from Section 13 of the Ordinance requiring the Company to maintain its Kentucky corporate headquarters in Lexington, Fayette County, Kentucky. Delta's corporate headquarters are located in Winchester, Clark County, Kentucky.
5. The payment guidelines as described in section 20(a) of the Ordinance shall be amended to a quarterly time period instead of monthly during the Term of the franchise consistent with past practices between Delta and the Government.

Please find attached to our bid a check for five hundred dollars (\$500.00) representing the cost of advertising and other administrative expenses as specified in Section 18 (a) of the Ordinance.

Hon. Jim Gray
April 8, 2013
Page 2

If there are any questions concerning Delta's bid please feel free to contact me or our legal counsel, Robert Watt III at Stoll Keenon Ogden PLLC (859-231-3043).

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Steele", with a large, sweeping flourish above the name.

Jeff Steele
Director – Administrative Services