

LEASE OF MIAMI FORT UNIT 5 AND UNIT 6 COMMON FACILITIES

FROM

THE UNION LIGHT, HEAT AND POWER COMPANY

TO

THE CINCINNATI GAS & ELECTRIC COMPANY

THIS LEASE AGREEMENT ("Lease" or "Agreement") is made as of this 25th day of January, 2006 and effective as of January 1, 2006 (the "Effective Date"), between THE UNION LIGHT, HEAT AND POWER COMPANY, with its principal offices being located at 139 East Fourth Street, Cincinnati, Ohio 45202 being a corporation organized and existing under the laws of the Commonwealth of Kentucky (the "Lessor"), and THE CINCINNATI GAS & ELECTRIC COMPANY, its principal offices being located at 139 East Fourth Street, Cincinnati Ohio 45202, being a corporation organized and existing under the laws of the State of Ohio (the "Lessee") (hereinafter, "Lessor" and "Lessee", collectively, the "Parties" and individually, a "Party").

- RECITALS -

WHEREAS, the Miami Fort Generating Station, located in Hamilton County, Ohio, is comprised of four coal-fired steam electric generating units hereinafter referred to as Unit 5, Unit 6, Unit 7 and Unit 8;

WHEREAS, immediately prior to the Effective Date, Lessee was the sole owner of all right, title and interest in, under and to Unit 6, a 168 megawatt (nameplate rating) coal-fired base or intermediate load plant;

WHEREAS, in accordance with the provisions of that certain Asset Transfer Agreement by and between Lessor and Lessee, dated as of the date hereof (the "Asset Transfer Agreement"), on the Effective Date, Lessee transferred, assigned, conveyed and delivered to Lessor all of Lessee's right, title and interest in, under and to Unit 6 and all real and personal property, tangible and intangible, constituting, or used in connection with or ancillary to the ownership and operation of, Unit 6 (other than certain assets associated therewith but excluded therefrom, including generation step-up transformers and other assets subject to the jurisdiction of the Federal Energy Regulatory Commission);

WHEREAS, pursuant to the Asset Transfer Agreement, Lessee also transferred, assigned, conveyed and delivered to Lessor all of Lessee's right, title and interest in, under and to those facilities used in connection with the generation of electricity by both Unit 5, which remains solely owned by Lessee, and Unit 6 including, without limitation, the exhaust stack, two crushed coal conveyors, a vacuum pump and coal crusher, all as set forth on Schedule 1 attached hereto and a part hereof (the "Common Assets"); and

Rebecca P. Groppe  
Hamilton County Recorder's Office  
06-0052754 Type: MT  
Filed: 04/06/06 03:36:41 PM \$84.00  
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WHEREAS, Lessee desires to lease from Lessor an undivided fractional interest in the Common Assets in the manner set forth herein and Lessor desires to lease to Lessee an undivided fractional interest in the Common Assets.

- LEASE -

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, the Parties hereby agree as follows:

I. LEASED ASSETS.

Lessor, for the rents and term hereinafter provided for, hereby leases to Lessee an undivided 37.314% interest in the Common Assets, which percentage is determined as set forth in Appendix A attached hereto.

II. RENT.

(A) As rentals for the foregoing, Lessee shall pay to Lessor every month during this Lease one-twelfth (1/12) of the sum of the following:

1. The product of (a) Lessor's rate of return on electric rate base as determined by the Kentucky Public Service Commission in its most recent rate proceeding on a pre-tax basis, currently 9.17% as determined on Appendix B attached hereto, (b) the net book value (original cost less accumulated depreciation, as such amount is recorded on Lessor's books) of the Common Assets as of the Effective Date, and (c) 37.314%;

2. An amount equal to all taxes (including without limitation property taxes), fees or assessments imposed upon Lessor by any authority that are allocable or attributable to Lessor's ownership of the Common Facilities, as allocated to Lessee by means of the undivided interest set forth in Item I above; and

3. The annualized accrual for depreciation determined by applying Lessor's applicable depreciation rates to the gross cost of the primary plant accounts involved with respect to the Common Facilities, as allocated to Lessee by means of the undivided interest set forth in Item I above.

(B) Such rental payment will be recalculated as of January 1<sup>st</sup> of each year after the Effective Date to incorporate then current amounts for net book value, annual depreciation, and taxes, fees and assessments.

(C) As Lessor and Lessee both are affiliates of Cinergy Corp. ("Cinergy"), using the same accounting system, and have established processes for reimbursing one another for intercompany obligations, Lessor and Lessee shall monthly make such accounting entries needed to charge amounts owed hereunder to Lessee and to cause funds to be transferred to the books of Lessor in payment of the amounts due hereunder. Monthly invoices will be produced only upon Lessee's specific request. Lessor shall from time to time

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grant reasonable access to its books and records relative to the rentals to representatives of Lessee, on Lessee's reasonable request.

III. TERM. The term of this Lease shall commence on the Effective Date and continue through the end of the month in which the Effective Date occurs and each month thereafter until terminated by Lessor or Lessee upon reasonable advance notice to the other.

IV. MISCELLANEOUS.

(A) Neither Lessor nor Lessee may, without the prior written consent of the other, sell or in any way transfer its interests in the property to which this Lease pertains for as long as the other Party is utilizing this Lease for the purpose for which it entered into this Lease, except (a) to a trustee under its first mortgage or (b) to an entity controlled by Cinergy; provided that the foregoing prohibitions shall be in effect only so long as Unit 5 is being or is intended to be utilized by Lessee in connection with the generation of electricity. Subject to the foregoing, this Agreement shall inure to the benefit of and be binding upon the Parties and their respective successors and assigns.

(B) This Lease may be simultaneously executed in two counterparts, each of which when so executed shall be deemed to be an original, but such counterparts shall together constitute but one and the same instrument.

(C) Effect of Conveyance by Lessor. In case Lessor or any successor owner of Unit 6 shall convey or otherwise dispose of any portion thereof to another person or entity as permitted by Section IV(A) hereunder, such other person or entity who shall become owner of Unit 6 shall thereupon be and become Lessor hereunder and shall assume fully in writing and be liable upon all liabilities and obligations of this Lease to be performed by Lessor which first arise after the date of conveyance, and subsequent to such assignment and assumption Lessor or successor owner of Unit 6 shall, from and after the date of conveyance, be free of all liabilities and obligations not then incurred.

(D) All rights and remedies of Lessor and Lessee under this Lease shall be cumulative and none shall exclude any other rights and remedies allowed by law.

(E) No modification, waiver or amendment of this Lease or of any of its conditions or provisions shall be binding upon the Lessor or Lessee unless in writing signed by Lessor or Lessee or by a duly authorized agent of Lessor or Lessee empowered by a written authority signed by Lessor or Lessee.

(F) Sectional headings in this Lease are solely for convenience of reference and shall not in any way limit or amplify the terms and provisions hereof.

(G) This Lease shall be governed by the laws of the State of Ohio.

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(H) Each and every covenant of this Lease is distinct and severable and if any provision of the Lease is held invalid by a court of competent jurisdiction or other governmental authority the same shall be stricken herefrom without affecting the validity of the remaining provisions of this Lease.

*(Signature Pages Follow)*

IN WITNESS WHEREOF, The Cincinnati Gas & Electric Company and The Union Light, Heat and Power Company have caused this instrument to be signed by their respective authorized officers and their respective corporate seals to be hereto affixed.

Signed in the presence of:

LESSOR:

THE CINCINNATI GAS & ELECTRIC COMPANY

*[Signature]*

Debbie Gates

By *[Signature]*

Michael J. Cyrus, Executive Vice President

*[Signature]*

Marc E. Manly, Secretary

LESSEE:

THE UNION LIGHT, HEAT AND POWER COMPANY

*[Signature]*

Debbie Gates

By *[Signature]*

Gregory C. Ficke

President

STATE OF OHIO :

: SS:

COUNTY OF HAMILTON:

Before me, a Notary Public in and for such County, personally appeared Michael J. Cyrus, <sup>Executive Vice</sup> President and Marc E. Manly, Secretary of The Cincinnati Gas & Electric Company who represented that they are duly authorized in the premises and who acknowledged that they did sign the foregoing instrument and that the same is their voluntary act and deed and is the voluntary act and deed of such corporation.

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SCHEDULE 1  
Common Assets

- Crushed coal conveyors (conveyors #11 and #12)
- Conveyor G
- Miami Fort 5 vacuum pump
- Exhaust stack
- Miami Fort 5 coal crusher

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**Undivided Ownership Interest Calculation**

Unit 5 (after the Effective Date, owned by CG&E)	100mW
Unit 6 (after the Effective Date, owned by ULH&P)	<u>168mW</u>
	268mW nameplate rating

$$\text{Unit 5 percentage} = \frac{100}{100 + 168} = 37.314\%$$

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Appendix B

**THE UNION LIGHT, HEAT AND POWER COMPANY**  
Calculation of Pre-tax Rate of Return on Electric Rate Base  
For Determination of Rental Under Common Facilities Lease Agreement

<u>Line No.</u>		
1	Income Before Income Taxes	100.0000%
2		
3	State Income Tax @ 8.25%	<u>8.2500%</u>
4		
5	Income Before Federal Income Tax	91.7500%
6		
7	Federal Income Tax @ 35.00%	<u>32.1100%</u>
8		
9	Operating Income Percentage	<u>59.6400%</u>
10		
11	Gross Revenue Conversion Factor (100% / Line 9)	<u><u>1.676727</u></u>
12		
13	Currently Approved Electric Rate of Return (a)	5.47%
14		
15	Pre-tax Rate of Return	<u><u>9.17%</u></u>

(a) Kentucky Public Service Commission Case No. 2001-058.

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