Duke Energy®

139 East Fourth Street, R. 25 At II
P.O. Box 960
Cincinnati, Ohio 45201-0960
Tel. 513-287-3601
Fax: 513-287-3810
John.Finnigan@duke-energy.com

John J. Finnigan, Jr.
Associate General Counsel

VIA FAX FILING AND OVERNIGHT MAIL

August 11, 2006

Ms. Elizabeth O'Donnell
Executive Director,
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: In the Matter of the Application of the Union Light, Heat and Power Company for an Order Authorizing the Issuance of First Mortgage Bonds, Unsecured Debt, and Long-Term Notes, Issuance of Inter-Company Promissory Notes, Execution and Delivery of Long-Term Loan Agreements, and Use of Interest Rate Management Agreements, Case No. 2005-00027

Dear Ms. O'Donnell:

Pursuant to Ordering Paragraphs 5, 6 and 9 of the Commission's April 13, 2005 Order in this case, Duke Energy Kentucky ("DE-Kentucky") reports that on August 2, 2006 it executed a closing for the issuance by the County of Boone, Kentucky (the "Issuer") of $76,720,000 of Pollution Control Revenue Refunding Bonds (Duke Energy Kentucky, Inc. Project), Series 2006. The Bonds (defined below) were issued in two series: (i) $50,000,000 Series 2006A Bonds (the "2006A Bonds") issued under a Trust Indenture dated as of August 1, 2006 (the "2006A Indenture") between the Issuer and Deutsche Bank National Trust Company (the "Trustee"); and (ii) $26,720,000 Series 2006B Bonds (the "2006B Bonds") issued under a Trust Indenture dated as of August 1, 2006 (the "2006B Indenture") between the Issuer and the Trustee. The 2006A Bonds and the 2006B Bonds are referred to collectively herein as the "Bonds."

DE-Kentucky's obligations to make payments equal to debt service on the 2006A Bonds are evidenced by a Loan Agreement dated as of August 1, 2006 (the "2006A Loan Agreement") between the Issuer and DE-Kentucky. DE-Kentucky's obligations to make payments equal to debt service on the 2006B Bonds are evidenced by a Loan Agreement dated as of August 1, 2006 (the "2006B Loan Agreement") between the Issuer and DE-Kentucky.

The Bonds were sold to Morgan Stanley & Co. Incorporated (the "Underwriter") at a purchase price of $76,720,000 and the Bonds of each series will bear interest at a variable rate. Interest on the Bonds will accrue from the date of issuance and delivery. For the initial interest period (ending September 7, 2006), the interest rate will be 3.60%. After the initial interest period, and prior to any subsequent selection of a new interest rate determination method, the Bonds will be Auction Rate Bonds. The interest rate for each auction period after the initial interest period will be the rate that the auction agent advises has resulted from the implementation of the auction procedures set forth in the applicable Indenture (subject to a maximum rate of 13%), in which persons determine to hold or offer to sell or, based on interest rates bid by them, offer to purchase or sell Bonds. Interest on Auction Rate Bonds will be computed on the basis of a 360-day year for the number of days actually elapsed.

DE-Kentucky entered into an interest rate swap (the "Swap") related to the 2006B Bonds on August 2, 2006 with Morgan Stanley Capital Services Inc. under which DE-Kentucky will pay a fixed rate of 3.86%, and will receive 68% of the one-month London Interbank Offered Rate ("LIBOR"), which will closely approximate the interest rate on the Bonds. This percent-of-LIBOR swap most closely matches the BMA index (an index of short-term tax-exempt rates published by The Bond Market Association) that tracks the current floating rates paid on the auction rate notes and is recognized as a valid index for hedging purposes.

DE-Kentucky determined that leaving the entire amount of the new issue as a floating rate debt would result in a greater level of floating rate exposure than management considered advisable. To achieve an acceptable level of floating rate exposure, DE-Kentucky considered issuing fixed rate debt, but this would have resulted in a higher rate than the fixed rate achieved through the Swap. DE-Kentucky also determined that the achieved interest rates were competitive at the time of issuance based upon initial interest rates for this issue compared to the BMA index, which is the industry standard floating rate benchmark index, and compared to alternative financing transactions (including taxable debt) that DE-Kentucky considered.

The compensation paid to the Underwriter in connection with the issuance of the Bonds is $268,520 and the other costs of issuance of the Bonds are estimated at $250,000 (including a bond insurance premium of $56,079 and out-of-pocket costs for legal, printing and similar costs).

Based on these factors, DE-Kentucky determined that the terms and conditions for the issuance of the Bonds, including the interest rates, resulted in the most reasonable terms and conditions available, and decided to enter into these transactions.

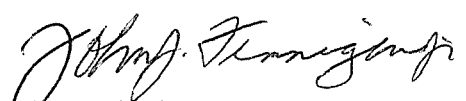
The proceeds of the Bonds will be applied to refund and redeem (on September 1, 2006) the: (i) $16,000,000 County of Boone, Kentucky Floating Rate Demand Pollution Control Revenue Refunding Bonds Series 1985 A (The Cincinnati Gas & Electric

Company Project); (ii) $48,000,000 County of Boone, Kentucky 6.5% Collateralized Pollution Control Revenue Refunding Bonds 1992 Series A (The Dayton Power and Light Company Project) (outstanding in the aggregate principal amount of $12,720,000); and (iii) $48,000,000 County of Boone, Kentucky 5-1/2% Collateralized Pollution Control Revenue Refunding Bonds 1994 Series A (The Cincinnati Gas & Electric Company Project). Given that the Bond proceeds are being used in this manner, DE-Kentucky is in compliance with the Commission's April 13, 2005 Order in this case.

I have enclosed copies of the 2006A Loan Agreement, the 2006B Loan Agreement and the Swap Confirmation dated August 2, 2006 between DE-Kentucky and Morgan Stanley Capital Services Inc.

Please date-stamp the extra copies of this letter and return to me in the envelope provided. Thank you for your consideration in this matter.

Sincerely,



John J. Finnigan, Jr.
Associate General Counsel

Enclosures

cc: Hon. Elizabeth E. Blackford (with enclosures)

LOAN AGREEMENT

between

COUNTY OF BOONE, KENTUCKY

and

THE UNION LIGHT, HEAT AND POWER COMPANY
(doing business as DUKE ENERGY KENTUCKY, INC.)

$50,000,000
County of Boone, Kentucky
Pollution Control Revenue Refunding Bonds,
Series 2006A
(Duke Energy Kentucky, Inc. Project)

Dated
as of
August 1, 2006

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LOAN AGREEMENT

THIS LOAN AGREEMENT is made and entered into as of August 1, 2006, between the COUNTY OF BOONE, KENTUCKY (the "Issuer"), a de jure county and a political subdivision of the Commonwealth of Kentucky (the "State"), and THE UNION LIGHT, HEAT AND POWER COMPANY (doing business as DUKE ENERGY KENTUCKY, INC.) (the "Company"), a public utility and corporation duly organized and validly existing under the laws of the State. Capitalized terms used in the following recitals are used as defined in Article I of this Agreement.

WHEREAS, the Issuer, at the request of The Cincinnati Gas & Electric Company ("CG&E"), previously issued its Floating Rate Monthly Demand Pollution Control Revenue Refunding Bonds, Series 1985 A (The Cincinnati Gas & Electric Company Project) in the aggregate principal amount of $16,000,000 (the "1985 Bonds"), the proceeds of which were used to refund the Issuer's Pollution Control Revenue Bonds, 1982 Series A (The Cincinnati Gas & Electric Company Project) (the "1982 Bonds"), which bonds were issued to finance CG&E's share of the cost of acquisition, construction, improvement and equipping of certain air and water pollution control facilities and solid waste disposal facilities located within the corporate boundaries of the Issuer (the "1985 Project") at the Generating Station; and

WHEREAS, the Issuer, at the request of The Dayton Power and Light Company ("DP&L"), previously issued its 6.5% Collateralized Pollution Control Revenue Refunding Bonds, 1992 Series A (The Dayton Power and Light Company Project) in the aggregate principal amount of $48,000,000 (the "1992 Bonds"), currently outstanding in the aggregate principal amount of $12,720,000, the proceeds of which were used to refund the Issuer's Pollution Control Revenue Bonds (The Dayton Power and Light Company Project), 1979 Series A (the "1979 DP&L Bonds"), which bonds were issued to finance DP&L's share of the cost of acquisition, construction, improvement and equipping of certain air and water pollution control facilities and solid waste disposal facilities located within the corporate boundaries of the Issuer at the Generating Station (the "1992/1994 Project"); and

WHEREAS, the Issuer, at the request of CG&E, previously issued its 5-1/2% Collateralized Pollution Control Revenue Refunding Bonds, 1994 Series A (The Cincinnati Gas & Electric Company Project) in the aggregate principal amount of $48,000,000 (the "1994 Bonds"), the proceeds of which were used to refund the Issuer's Pollution Control Revenue Bonds (The Cincinnati Gas & Electric Company Project), 1979 Series A (the "1979 CG&E Bonds"), which bonds were issued to finance CG&E's share of the cost of acquisition, construction, improvement and equipping of the 1992/1994 Project at the Generating Station; and

WHEREAS, pursuant to an Assignment and Assumption Agreement dated as of September 30, 2005, CG&E assumed DP&L's duties and obligations with respect to the Refunded Series 1992A Bonds; and

WHEREAS, pursuant to a Debt Assumption Agreement dated as of January 1, 2006, the Company assumed CG&E's duties and obligations with respect to the 1985 Bonds, the 1992 Bonds and the 1994 Bonds; and

WHEREAS, pursuant to the Act, the Issuer has determined to issue, sell and deliver its Pollution Control Revenue Refunding Bonds, Series 2006A (Duke Energy Kentucky, Inc. Project) in the aggregate principal amount of $50,000,000 (the "2006A Bonds") pursuant to a Trust Indenture dated as of August 1, 2006 (the "2006A Indenture") and to lend the proceeds derived from the sale thereof to the Company pursuant to this Loan Agreement (the "2006A Agreement") to assist in the refunding of the entire outstanding principal amount of the 1985 Bonds, a portion of the outstanding principal amount of the 1992 Bonds, and a portion of the outstanding principal amount of the 1994 Bonds (collectively referred to herein as the "Refunded Bonds"); and

WHEREAS, pursuant to the Act, the Issuer has determined to issue and sell its Pollution Control Revenue Refunding Bonds, Series 2006B (Duke Energy Kentucky, Inc. Project) in the aggregate principal amount of $26,720,000 (the "2006B Bonds") pursuant to a Trust Indenture dated as of August 1, 2006 (the "2006B Indenture") between the Issuer and the Trustee in order to obtain funds to loan to the Company pursuant to a Loan Agreement dated as of August 1, 2006 (the "2006B Agreement") between the Issuer and the Company in order to provide funds for the refunding of the remaining portion of the remaining outstanding principal amount of the 1994 Bonds; and

WHEREAS, this 2006A Agreement provides for the repayment by the Company of the loan of the proceeds of the 2006A Bonds and further provides for such loan to be secured by the lien and security interest provided for in this 2006A Agreement; and

WHEREAS, pursuant to the 2006A Indenture, the Issuer will assign certain of its rights under this 2006A Agreement as security for the 2006A Bonds which are payable solely out of the payments to be made by the Company under this 2006A Agreement and the security interests granted thereby, except to the extent paid out of 2006A Bond proceeds and proceeds of condemnation and insurance; and

WHEREAS, the execution and delivery of this 2006A Agreement and the 2006A Indenture and the issuance of the 2006A Bonds thereunder have been in all respects duly and validly authorized by a bond ordinance duly passed and approved by the Issuer.

NOW THEREFORE, in consideration of the premises and the mutual representations and agreements hereinafter contained, the Issuer and the Company agree as follows (provided that any obligation of the Issuer or the State created by or arising out of this 2006A Agreement shall never constitute a general debt of the Issuer or the State or give rise to any pecuniary liability of the Issuer or the State but shall be payable solely out of Revenues, including the Loan Payments made pursuant hereto):

ARTICLE I.

DEFINITIONS

Section 1.1. Use of Defined Terms. In addition to the words and terms defined elsewhere in this 2006A Agreement, the 2006A Indenture or by reference to another document, the words and terms set forth in Section 1.2 hereof shall have the meanings set forth therein unless the context or use clearly indicates another meaning or intent. Such definitions shall be equally applicable to both the singular and plural forms of any of the words and terms defined therein. Any terms not defined herein but defined in the 2006A Indenture shall have the same meaning herein.

Section 1.2. Definitions. As used herein:

"Act" means Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes.

"Additional Payments" means the amounts required to be paid by the Company pursuant to the provisions of Section 4.2 hereof.

"Administration Expenses" means the compensation (which compensation shall not be greater than that agreed to in writing by the Company) and reimbursement of reasonable out-of-pocket expenses, including legal fees and expenses, and advances payable to the Trustee, the Registrar, the Remarketing Agent, the Broker-Dealer, the Auction Agent, any Paying Agent and any Authenticating Agent.

"Bond Insurer" means XL Capital Assurance Inc..

"Bond Insurance Policy" means the insurance policy relating to the 2006A Bonds issued by the Bond Insurer.

"Bond Purchase Agreement" means the bond purchase agreement entered into between the Issuer and the Underwriter relating to the 2006A Bonds and the 2006B Bonds.

"Bond Service Charges" means, for any period or time, the principal of, premium, if any, and interest on the 2006A Bonds for that period or payable at that time whether due at maturity, upon redemption, or upon acceleration.

"Company" means The Union Light, Heat and Power Company (doing business as Duke Energy Kentucky, Inc.), a public utility and corporation duly organized and validly existing under the laws of the State, and its lawful successors and assigns, to the extent permitted by the Agreement.

"Engineer" means an engineer (who may be an employee of the Company) or engineering firm qualified to practice the profession of engineering under the laws of the State.

"Event of Default" means any of the events described as an Event of Default in Section 7.1 hereof.

"Force Majeure" means any of the following:

(i) acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States of America or of the State or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; civil disturbances; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; tornados; storms; droughts; floods; arrests; restraint of government and people; explosions; breakage, nuclear accidents or other malfunction or accident to facilities, machinery, transmission pipes or canals; partial or entire failure of a utility serving the Project; shortages of labor, materials, supplies or transportation; or

(ii) any cause, circumstance or event not reasonably within the control of the Company.

"Generating Station" means the East Bend Generating Station located near Union, Kentucky.

"Insurance Agreement" means the Insurance Agreement between the Company and the Bond Insurer as amended or supplemented from time to time.

"Interest Rate for Advances" means the interest rate per year payable on the 2006A Bonds.

"Liquidity Facility" means a liquidity facility as defined in the 2006A Indenture.

"Loan" means the loan by the Issuer to the Company of the proceeds received from the sale of the 2006A Bonds.

"Loan Payment Date" means a date which is two Business Days preceding any date on which any Bond Service Charges are due and payable.

"Loan Payments" means the amounts required to be paid by the Company in repayment of the Loan pursuant to Section 4.1 hereof.

"Notice Address" means:

(a) As to the Issuer:
County of Boone, Kentucky
Boone County Courthouse
Burlington, Kentucky 41005
Attention: County Judge/Executive

(b) As to the Company:
The Union Light, Heat and Power Company
c/o Duke Energy Corporation
526 South Church Street
Charlotte, North Carolina 28202
Attention: Treasurer

(c) As to the Trustee:
Deutsche Bank National Trust Company
222 South Riverside Plaza, 25th Floor
Mail Code: CH 105-2502
Chicago, Illinois 60606
Attention: Corporate Trust

(c) If to the Remarketing Agent:
Morgan Stanley & Co. Incorporated
1221 Avenue of the Americas
New York, New York 10020
Attention: Remarketing Coordinator

(d) If to Moody's:
Moody's Investors Service
99 Church Street
New York, New York 10007; and

(e) If to S&P:
Standard & Poor's
25 Broadway
New York, New York 10004

(f) If to the Bond Insurer:
XL Capital Assurance Inc.
1221 Avenue of the Americas, 31st Floor
New York, New York 10020-1001
Attention: Drew Hoffman, Surveillance Department
Telephone: (212) 478-3400
Telecopier: (212) 478-3587

and

Attention: Susan Comparato, Esq., General Counsel
Telephone: (212) 478-3474
Facsimile: (212) 478-3446

(g) If to the Auction Agent:
Deutsche Bank Trust Company Americas
60 Wall Street
New York, New York 10005
Attention: Auction Rate Securities

or such additional or different address, notice of which is given under Section 8.3 hereof.

"Opinion of Bond Counsel" means a written opinion of nationally recognized bond counsel selected by the Company and acceptable to the Trustee who is experienced in matters relating to the exclusion from gross income for federal income tax purposes of interest on obligations issued by states and their political subdivisions. Bond Counsel may be counsel to the Trustee or the Company.

"Person" or words importing persons mean firms, associations, partnerships (including without limitation, general and limited partnerships), limited liability entities, joint ventures, societies, estates, trusts, corporations, public or governmental bodies, other legal entities and natural persons.

"Pollution Control Facility" or "Pollution Control Facilities" means pollution control facilities as that term is defined in KRS 103.246 and also refers to "air and water pollution control facilities" and "solid waste disposal facilities: within the meaning of Sections 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended.

"Project" or "Project Facilities" means, collectively, the 1985 Project and the 1992/1994 Project.

"Project Costs" means the costs of the Project specified in Section 3.4 hereof.

"Project Purposes" means the purposes of Pollution Control Facilities and related facilities as described in the Act and as particularly described in Exhibits A and B hereto.

"Project Site" means the Generating Station.

"Refunded Bonds" means, collectively, the entire outstanding principal amount of the 1985 Bonds, a portion of outstanding principal amount of the 1992 Bonds and a portion of the outstanding principal amount of the 1994 Bonds.

"Refunded Bonds Agreements" means, collectively, the 1985 Agreement, the 1992 Agreement and the 1994 Agreement.

"Refunded Bonds Indentures" means, collectively, the 1985 Indenture, the 1992 Indenture and the 1994 Indenture.

"Refunded Bonds Trustees" means, collectively, the 1985 Trustee, the 1992 Trustee and the 1994 Trustee.

"Refunding Fund" means the 2006A Refunding Fund created in the 2006A Indenture.

"Register" means the books kept and maintained by the Registrar for registration and transfer of 2006A Bonds pursuant to Section 3.05 of the 2006A Indenture.

"Registrar" means Deutsche Bank National Trust Company, Chicago, Illinois, until a successor Registrar shall have become such pursuant to applicable provisions of the 2006A Indenture.

"Revenues" means (a) the Loan Payments, (b) all other moneys received or to be received by the Issuer (excluding any fees paid to the Issuer and all Unassigned Issuer Rights) or the Trustee in respect of repayment of the Loan, including without limitation, all moneys and investments in the 2006A Bond Fund, (c) any moneys and investments in the 2006A Refunding Fund, and (d) all income and profit from the investment of the foregoing moneys. The term "Revenues" does not include any moneys or investments in the 2006A Rebate Fund or the 2006A Bond Purchase Fund.

"State" means the Commonwealth of Kentucky.

"Tax Certificate" means the Tax Certificate of the Company dated August 2, 2006.

"Trustee" means Deutsche Bank National Trust Company, a national banking association duly organized and validly existing under the laws of the United States of America and duly authorized to exercise trust powers, until a successor Trustee shall have become such pursuant to the applicable provisions of the 2006A Indenture, and thereafter "Trustee" shall mean the successor Trustee. "Principal Office" of the Trustee shall mean the corporate trust office of the Trustee, which office at the date of issuance of the 2006A Bonds is located at its Notice Address.

"Unassigned Issuer Rights" means all of the rights of the Issuer to receive Additional Payments under Section 4.2 hereof, to inspection pursuant to Section 5.1 hereof, to be held harmless and indemnified under Section 5.9 hereof, to be reimbursed for attorney's fees and expenses under Section 7.4 hereof and to give or withhold consent to amendments, changes, modifications, alterations and termination of this 2006A Agreement under Section 8.6 hereof and its right to enforce such rights.

"Underwriter" means Morgan Stanley & Co. Incorporated as the original purchaser of the 2006A Bonds.

"1985 Agreement" means the Loan Agreement dated as of February 1, 1985 between the Issuer and The Cincinnati Gas & Electric Company.

"1985 Bonds" means the $16,000,000 Floating Rate Monthly Demand Pollution Control Revenue Refunding Bonds, Series 1985 A (The Cincinnati Gas & Electric Company Project).

"1985 Indenture" means the Trust Indenture dated as of February 1, 1985 between the Issuer and the 1985 Trustee.

"1985 Project" or "1985 Project Facilities" means the real, personal or real and personal property, including undivided or other interests therein, identified in the 1985 Project Description.

"1985 Project Description" means the description of the 1985 Project Facilities attached hereto as Exhibit A.

"1985 Trustee" means The Bank of New York Trust Company, N.A., as successor to The Fifth Third Bank.

"1992 Agreement" means the Loan Agreement dated as of November 15, 1992 between the Issuer and The Dayton Power and Light Company.

"1992 Bonds" means the $48,000,000 County of Boone, Kentucky 6.5% Collateralized Pollution Control Revenue Refunding Bonds, 1992 Series A (The Dayton Power and Light Company Project), currently outstanding in the aggregate principal amount of $12,720,000.

"1992 Indenture" means the Trust Indenture dated as of November 15, 1992 between the Issuer and the 1992 Trustee.

"1992/1994 Project" or "1992/1994 Project Facilities" means the real, personal or real and personal property, including undivided or other interests therein, identified in the 1992/1994 Project Description.

"1992/1994 Project Description" means the description of the 1992/1994 Project Facilities attached hereto as Exhibit B.

"1992 Trustee" means The Bank of New York Trust Company, N.A..

"1994 Agreement" means the Loan Agreement dated as of January 1, 1994 between the Issuer and The Cincinnati Gas & Electric Company.

"1994 Bonds" means the $48,000,000 County of Boone, Kentucky 5-1/2% Collateralized Pollution Control Revenue Refunding Bonds, 1994 Series A (The Cincinnati Gas & Electric Company Project).

"1994 Indenture" means the Trust Indenture dated as of January 1, 1994 between the Issuer and the 1994 Trustee.

"1994 Trustee" means The Bank of New York Trust Company, N.A..

"2006A Agreement" means this Loan Agreement, as amended or supplemented from time to time.

"2006A Indenture" means the Trust Indenture related to the 2006A Bonds, dated as of the same date as this 2006A Agreement, between the Issuer and the Trustee, as amended or supplemented from time to time.

"2006A Rebate Fund" means the 2006A Rebate Fund created in the 2006A Indenture.

"2006B Agreement" means the Loan Agreement dated as of August 1, 2006 between the Issuer and the Company relating to the 2006B Bonds.

"2006B Bonds" means the Pollution Control Revenue Refunding Bonds, Series 2006B (Duke Energy Kentucky, Inc. Project) issued by the Issuer pursuant to the 2006B Indenture.

"2006B Indenture" means the Trust Indenture dated as of August 1, 2006 between the Issuer and the Trustee relating to the 2006B Bonds.

Section 1.3. Interpretation. Any reference herein to the State, to the Issuer or to any member or officer of either includes entities or officials succeeding to their respective functions, duties or responsibilities pursuant to or by operation of law or lawfully performing their functions.

Any reference to a section or provision of the Constitution of the State or the Act, or to a section, provision or chapter of the Kentucky Revised Statutes, or to any statute of the United States of America, includes that section, provision or chapter as amended, modified, revised, supplemented or superseded from time to time; provided, that no amendment, modification, revision, supplement or superseding section, provision or chapter shall be applicable solely by reason of this provision, if it constitutes in any way an impairment of the rights or obligations of the Issuer, the State, the Holders, the Trustee, the Registrar, the Auction Agent, an Authenticating Agent, a Paying Agent, the Bond Insurer, the Remarketing Agent or the Company under this 2006A Agreement, the 2006A Indenture or the 2006A Bonds.

Unless the context indicates otherwise, words importing the singular number include the plural number, and vice versa; the terms "hereof", "hereby", "herein", "hereto", "hereunder" and similar terms refer to this 2006A Agreement; and the term "hereafter" means after, and the term "heretofore" means before, the date of delivery of the 2006A Bonds. Words of any gender include the correlative words of the other genders, unless the sense indicates otherwise.

Section 1.4. Captions and Headings. The captions and headings in this 2006A Agreement are used solely for convenience of reference and in no way define, limit or describe the scope or intent of any Articles, Sections, subsections, paragraphs or subparagraphs or clauses hereof.

(End of Article I)

ARTICLE II.

REPRESENTATIONS

Section 2.1. Representations of the Issuer. The Issuer represents that: (a) it is a de jure county and a political subdivision of the State duly organized and validly existing under the laws of the State; (b) it has duly accomplished all conditions necessary to be accomplished by it prior to the issuance and delivery of the 2006A Bonds and the execution and delivery of this 2006A Agreement and the 2006A Indenture; (c) it is not in violation of or in conflict with any provisions of the laws of the State which would impair its ability to carry out its obligations contained in this 2006A Agreement or the 2006A Indenture; (d) it is empowered to enter into the transactions contemplated by this 2006A Agreement and the 2006A Indenture; (e) it has duly authorized the execution, delivery and performance of this 2006A Agreement and the 2006A Indenture; (f) it will do all things in its power in order to maintain its existence or assure the assumption of its obligations under this 2006A Agreement and the 2006A Indenture by any successor public body and (g) following reasonable notice, a public hearing was held on July 25, 2006, with respect to the issuance of the 2006A Bonds as required by Section 147 of the Code.

Section 2.2. No Warranty by Issuer of Condition or Suitability of the Project. The Issuer makes no warranty, either express or implied, as to the suitability or utilization of the Project for the Project Purposes, or as to the condition of the Project Facilities or that the Project Facilities are or will be suitable for the Company's purposes or needs.

Section 2.3. Representations and Covenants of the Company. The Company represents that:

(a) The Company has been duly incorporated and is validly existing as a corporation under the laws of the State, with power and authority (corporate and other) to own its properties and conduct its business, to execute and deliver this 2006A Agreement and to perform its obligations under this 2006A Agreement.

(b) This 2006A Agreement has been duly authorized, executed and delivered by the Company and this 2006A Agreement constitutes the valid and legally binding obligations of the Company, enforceable in accordance with their terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(c) The execution, delivery and performance by the Company of this 2006A Agreement and the consummation of the transactions contemplated hereby will not violate any provision of law or regulation applicable to the Company, or of any writ or decree of any court or governmental instrumentality, or of the Restated and Amended Articles of Incorporation, as amended, or the By-laws of the Company, or of any mortgage, indenture, contract, agreement or other undertaking to which the Company is a party or which purports to be binding upon the Company or upon any of its assets.

(d) The Project constitutes Pollution Control Facilities under the Act, is consistent with and will further the purposes of the Act and is located entirely within the State. The Project is being, and the Company will cause the Project to be, operated and maintained in such manner as to be consistent with the Act and to conform to all applicable, if any, zoning, planning, building, environmental and other applicable governmental regulations. All necessary permits, variances and orders remain in full force and effect and have not been withdrawn or otherwise suspended.

(e) The Project is being, and will be, utilized as Pollution Control Facilities under the Act.

(f) It presently intends to use or operate or cause to be used or operated the Project in a manner consistent with the Project Purposes until the date on which the 2006A Bonds have been fully paid and knows of no reason why the Project will not be so operated. The Company does not presently intend to sell or otherwise dispose of the Project or any portion thereof.

(g) Substantially all (at least 90%) of the proceeds of the 1982 Bonds were used to provide air and water pollution control facilities and solid waste disposal facilities within the meaning of Sections 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended (the "1954 Code"), the original use of which facilities commenced with CG&E and all of the proceeds of the 1982 Bonds have been spent for the 1985 Project or to pay costs of issuance of the 1982 Bonds. The proceeds of the 1985 Bonds (other than any accrued interest thereon) were used exclusively to refund the 1982 Bonds or to pay costs of issuance of the 1985 Bonds. All of the proceeds of the 1985 Bonds were used to retire the 1982 Bonds not later than 90 days after the date of issuance of the 1985 Bonds. The 1982 Bonds were issued prior to August 16, 1986.

(h) Substantially all (at least 90%) of the proceeds of the 1979 DP&L Bonds were used to provide air and water pollution control facilities and solid waste disposal facilities within the meaning of Sections 103(b)(4)(E) and (F) of the 1954 Code, the original use of which facilities commenced with DP&L and all of the proceeds of the 1979 DP&L Bonds have been spent for the 1992/1994 Project or to pay costs of issuance of the 1979 DP&L Bonds. The proceeds of the 1992 Bonds (other than any accrued interest thereon) were used exclusively to refund the 1979 DP&L Bonds and none of the proceeds of the 1992 Bonds were used to pay for any costs of issuance of the 1992 Bonds. All of the proceeds of the 1992 Bonds were used to retire the 1979 DP&L Bonds not later than 90 days after the date of issuance of the 1992 Bonds. The 1979 DP&L Bonds were issued prior to August 16, 1986.

(i) Substantially all (at least 90%) of the proceeds of the 1979 CG&E Bonds were used to provide air and water pollution control facilities and solid waste disposal facilities within the meaning of Sections 103(b)(4)(E) and (F) of the 1954 Code, the original use of which facilities commenced with CG&E and all of the proceeds of the 1979 CG&E Bonds have been spent for the 1992/1994 Project or to pay costs of issuance of the 1979 CG&E Bonds. The proceeds of the 1994 Bonds (other than any accrued interest thereon) were used exclusively to refund the 1979 CG&E Bonds and none of the proceeds of the 1994 Bonds were used to pay for

any costs of issuance of the 1994 Bonds. All of the proceeds of the 1994 Bonds were used to retire the 1979 CG&E Bonds not later than 90 days after the date of issuance of the 1994 Bonds. The 1979 CG&E Bonds were issued prior to August 16, 1986.

(j) The principal amount of the 2006 A Bonds does not exceed the outstanding principal amount of the Refunded Bonds. All of the proceeds of the 2006 A Bonds will be used to retire the Refunded Bonds not later than 90 days after the date of issuance of the 2006 A Bonds.

(k) Either the acquisition and construction of the 1985 Project was not commenced (within the meaning of Treasury Regulations §1.103-8(a)(5)) prior to the adoption of the resolution of the Issuer evidencing the intent of the Issuer to issue the 1982 Bonds, or, any proceeds of the corresponding 1985 Bonds used to pay costs incurred prior to the adoption of such corresponding resolution have been treated for purposes of this Agreement as having been used to provide working capital (not land or depreciable property) to the Company.

(l) Either the acquisition and construction of the 1992/1994 Project was not commenced (within the meaning of Treasury Regulations §1.103-8(a)(5)) prior to the adoption of the resolutions of the Issuer evidencing the intent of the Issuer to issue the 1979 DP&L Bonds and 1979 CG&E Bonds, or, any proceeds of the corresponding 1992 Bonds and 1994 Bonds used to pay costs incurred prior to the adoption of such corresponding resolution have been treated for purposes of this Agreement as having been used to provide working capital (not land or depreciable property) to the Company.

(m) None of the proceeds of the 1982 Bonds, 1985 Bonds, 1979 DP&L Bonds, 1992 Bonds, 1979 CG&E Bonds or 1994 Bonds have been used and none of the proceeds of the 2006 A Bonds or 2006 B Bonds will be used directly or indirectly to acquire land or any interest therein.

(n) No portion of the proceeds of the 1982 Bonds, 1985 Bonds, 1979 DP&L Bonds, 1992 Bonds, 1979 CG&E Bonds or 1994 Bonds has been used and no portion of the proceeds of the 2006 A Bonds or 2006 B Bonds will be used to acquire existing property or any interest therein unless the first use of such property was by the Company (or DP&L or CG&E as the original user of such property) and was pursuant to and followed such acquisition.

(o) On the respective dates of issuance and delivery of the 1982 Bonds, 1985 Bonds, 1979 DP&L Bonds, 1992 Bonds, 1979 CG&E Bonds or 1994 Bonds, DP&L or CG&E as the original user of the property financed reasonably expected that all of the proceeds thereof would be used to carry out the governmental purposes of each such issue within the 3-year period beginning on the date each such issue was issued and none of the proceeds of each such issue, if any, were invested in nonpurpose investments having a substantially guaranteed yield for 3 years or more.

(p) None of the proceeds of the 2006A Bonds will be used to provide working capital or to pay costs of issuance of the 2006A Bonds.

(q) In accordance with Section 147(b) of the Code, the weighted average maturity of the 2006A Bonds does not exceed 120% of the weighted average reasonably expected economic life of the Project Facilities.

(r) None of the proceeds of the 1982 Bonds, 1985 Bonds, 1979 DP&L Bonds, 1992 Bonds, 1979 CG&E Bonds or 1994 Bonds were used, and none of the proceeds of the 2006A Bonds will be used, to provide any airplane; skybox or other private luxury box; health club facility; any facility primarily used for gambling; or any store the principal business of which is the sale of alcoholic beverages for consumption off premises;

(s) The Project has been and will be used wholly to control pollution and dispose of solid waste and were designed for no significant purpose other than pollution control and disposal of solid waste, and the Project was not designed to result in an increase in production or capacity, in a material extension of the useful life of the Generating Station or, in the case of the portions of the Project which are Pollution Control Facilities, in the recovery of by-products of any substantial value.

(t) At no time will any funds constituting gross proceeds of the 2006A Bonds be used in a manner as would constitute failure of compliance with Section 148 of the Code.

(u) The 2006A Bonds are not and will not be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(v) It is not anticipated that as of the date hereof, there will be created any "replacement proceeds", within the meaning of Section 1.148-1(c) of the Treasury Regulations, with respect to the 2006A Bonds; however, in the event that any such replacement proceeds are deemed to have been created, such amounts will be invested in compliance with Section 148 of the Code.

(w) The information furnished by the Company and used by the Issuer in preparing the certification pursuant to Section 148 of the Code and in preparing the information statement pursuant to Section 149(e) of the Code will be accurate and complete as of the date of issuance of the 2006A Bonds; and

(x) The Project Facilities do not include any office except for offices (i) located on the Project Site and (ii) not more than a *de minimis* amount of the functions to be performed at which is not directly related to the day-to-day operations of the Project Facilities.

(y) The Department of Natural Resources and Environmental Protection of Kentucky (now the Natural Resources and Environmental Protection Cabinet of Kentucky), having jurisdiction in the premises, has previously certified that each of the 1985 Project and the 1992/1994 Project, as designed, is in furtherance of the purposes of abating and controlling atmospheric pollutants and contaminants and water pollution.

(End of Article II)

ARTICLE III.

COMPLETION OF THE PROJECT; ISSUANCE OF THE BONDS

Section 3.1. Acquisition, Construction and Installation. The Project was acquired, constructed and installed on the Project Site in accordance with the Project Descriptions and in conformance with all applicable, valid and enforceable (i) zoning, planning, building, environmental and other similar regulations of all governmental authorities having jurisdiction over the Project and (ii) permits, variances and orders issued in respect of the Project. The proceeds derived from the Refunded Bonds, including any investment thereof, were expended in accordance with the Refunded Bonds Indentures and the Refunded Bonds Agreements.

It is understood that the Project is that of the Company and any contracts made by the Company with respect thereto, whether acquisition contracts, installation contracts or otherwise, or any work to be done by the Company on the Project are made or done by the Company on its own behalf and not as agent or contractor for the Issuer.

Section 3.2. Project Descriptions. The Project Descriptions may be changed from time to time by, or with the consent of, the Company provided that any such change shall not adversely affect the exclusion of interest on the 2006A Bonds from gross income for federal income tax purposes.

Section 3.3. Issuance of the 2006A Bonds; Application of Proceeds. To provide funds to make the Loan to the Company to assist the Company in the refunding of the Refunded Bonds, the Issuer will issue, sell and deliver the 2006A Bonds to the Underwriter. The 2006A Bonds will be issued pursuant to the 2006A Indenture in the aggregate principal amount, will bear interest, will mature and will be subject to redemption as set forth therein. The Company hereby approves the terms and conditions of the 2006A Indenture and the 2006A Bonds, and the terms and conditions under which the 2006A Bonds will be issued, sold and delivered. The Company, for the benefit of the Issuer and each Bondholder, shall do and perform all acts and things required or contemplated in the Indenture to be done or performed by the Company.

The proceeds from the sale of the 2006A Bonds (other than any accrued interest) shall be loaned to the Company to assist the Company in refunding the Refunded Bonds and shall be deposited in whole in the 2006A Refunding Fund. On or before September 1, 2006, moneys on deposit in the 2006A Refunding Fund in the amount of the outstanding principal of the 1985 Bonds shall be transferred to and deposited in the bond fund created by the 1985 Indenture and applied by the 1985 Trustee to the reimbursement of the bank under the letter of credit to pay the principal of and interest on the 1985 Bonds on September 1, 2006. On or prior to September 1, 2006, moneys in the 2006A Refunding Fund, in the amount of $12,720,000, will be transferred to the bond fund created by the 1992 Indenture and applied by the 1992 Trustee, with other adequate moneys to be furnished by the Company, to the payment of the principal of and interest on the 1992 Bonds on September 1, 2006. On or prior to September 1, 2006, the balance remaining in the 2006A Refunding Fund will be transferred to the bond fund created by the 1994

Indenture and applied by the 1994 Trustee, with other adequate moneys to be furnished by the Company, including proceeds of the 2006B Bonds, to the payment of the principal of and interest on the 1994 Bonds on September 1, 2006. At the direction of the Company all interest earnings in the 2006A Refunding Fund shall be applied pro rata to the payment of the principal of and interest on the Refunded Bonds.

The Company agrees to provide sufficient funds, together with the proceeds of the 2006A Bonds, to pay the redemption price of the Refunded Bonds plus any outstanding 1992 Bonds to be redeemed on September 1, 2006.

Section 3.4. Disbursements from the 2006A Refunding Fund. Pending disbursement pursuant to Section 5.02 of the 2006A Indenture, the proceeds of the 2006A Bonds so deposited in the 2006A Refunding Fund, together with any investment earnings thereon, shall constitute a part of the Revenues assigned by the Issuer to the Trustee for the payment of Bond Service Charges. Any accrued interest received from the sale of the 2006A Bonds shall be deposited in the 2006A Bond Fund.

Section 3.5. Investment of Fund Moneys. At the oral (confirmed promptly in writing) or written request of the Company, any moneys held as part of the 2006A Bond Fund, the 2006A Refunding Fund or the 2006A Rebate Fund shall be invested or reinvested by the Trustee in Eligible Investments; provided, that such moneys shall be invested or reinvested by the Trustee only in Eligible Investments which shall mature, or which shall be subject to redemption by the holder thereof at the option of such holder, not later than the date upon which the moneys so invested are needed to make payments from those Funds. The Issuer (to the extent it retained or retains direction or control) and the Company each hereby covenants that it will restrict the investment and reinvestment and the use of the proceeds of the 2006A Bonds in such manner and to such extent, if any, as may be necessary so that the 2006A Bonds will not constitute arbitrage bonds under Section 148 of the Code.

The Company shall provide the Issuer with, and the Issuer may base its certificate and statement, each as authorized by the Bond Ordinance, on a certificate of an appropriate officer, employee or agent of or consultant to the Company for inclusion in the transcript of proceedings for the 2006A Bonds, setting forth the reasonable expectations of the Company on the date of delivery of and payment for the 2006A Bonds regarding the amount and use of the proceeds of the 2006A Bonds and the facts, estimates and circumstances on which those expectations are based.

Section 3.6. 2006A Rebate Fund. To the extent required by Section 5.09 of the 2006A Indenture, within five days after the end of the fifth Bond Year and every fifth Bond Year thereafter, and within five days after payment in full of all outstanding 2006A Bonds, the Company shall calculate the amount of Excess Earnings as of the end of that Bond Year or the date of such payment and shall notify the Trustee of that amount. If the amount then on deposit in the 2006A Rebate Fund created under the 2006A Indenture is less than the amount of Excess Earnings (computed by taking into account the amount or amounts, if any, previously paid to the

United States pursuant to Section 5.09 of the 2006A Indenture and this Section), the Company shall, within five days after the date of the aforesaid calculation, pay to the Trustee for deposit in the 2006A Rebate Fund an amount sufficient to cause the 2006A Rebate Fund to contain an amount equal to the Excess Earnings. The obligation of the Company to make such payments shall remain in effect and be binding upon the Company notwithstanding the release and discharge of the 2006A Indenture. The Company shall obtain and keep such records of the computations made pursuant to this Section as are required under Section 148(f) of the Code.

Section 3.7. Agreement as to Ownership of Project. The Issuer agrees that it will not have any interest in, title to or ownership of the Project or the Project Site.

Section 3.8. Use of Project. The Issuer does hereby covenant and agree that it will not take any action, or cause any action to be taken, during the term of this 2006A Agreement, other than pursuant to Article VII of this 2006A Agreement or Article VII of the 2006A Indenture, to interfere with the Company's ownership of the Project or to prevent the Company from having possession, custody, use and enjoyment of the Project, except such action as is requested by the Trustee in enforcing any remedies available to it under this 2006A Agreement or the 2006A Indenture.

(End of Article III)

ARTICLE IV.

LOAN BY ISSUER; LOAN PAYMENTS; ADDITIONAL PAYMENTS

Section 4.1. Loan Repayment. Upon the terms and conditions of this 2006A Agreement, the Issuer agrees to make the Loan to the Company. The proceeds of the Loan shall be deposited with the Trustee pursuant to Section 3.3 hereof. In consideration of and in repayment of the Loan, the Company shall, under all circumstances and without reduction for any reason, make, as Loan Payments, to the Trustee for the account of the Issuer, payments which correspond, as to time, and are equal in amount as of the Loan Payment Date, to the corresponding Bond Service Charges payable on the 2006A Bonds. All Loan Payments received by the Trustee shall be held and disbursed in accordance with the provisions of the Series 2006A Indenture and this 2006A Agreement for application to the payment of Bond Service Charges.

The Company shall be entitled to a credit against the Loan Payments required to be made on any Loan Payment Date to the extent that the balance of the 2006A Bond Fund is then in excess of amounts required (a) for the payment of 2006A Bonds theretofore matured or theretofore called for redemption, or to be called for redemption pursuant to Section 6.1 hereof (b) for the payment of interest for which checks or drafts have been drawn and mailed by the Trustee or Paying Agent, and (c) to be deposited in the 2006A Bond Fund by the 2006A Indenture for use other than for the payment of Bond Service Charges due on that Loan Payment Date.

The Company's obligation to make Loan Payments shall be reduced to the extent of any payments made by the Bond Insurer to the Trustee in respect of the principal of, premium, if any, or interest on the 2006A Bonds when due pursuant to the Bond Insurance Policy, provided, that the Bond Insurer has been reimbursed for such payments in accordance with the terms of the Insurance Agreement.

Except for such interest of the Company as may hereafter arise pursuant to Section 8.2 hereof or Sections 5.07 or 5.08 of the 2006A Indenture, the Company and the Issuer each acknowledge that neither the Company, the State nor the Issuer has any interest in the 2006A Bond Fund or the 2006A Bond Purchase Fund, and any moneys deposited therein shall be in the custody of and held by the Trustee in trust for the benefit of the Holders.

Section 4.2. Additional Payments. The Company shall pay to the Issuer, as Additional Payments hereunder, any and all reasonable costs and expenses incurred or to be paid by the Issuer in connection with the issuance and delivery of the 2006A Bonds or otherwise related to actions taken by the Issuer under this 2006A Agreement or the 2006A Indenture.

The Company shall pay the Administration Expenses to the Trustee, the Registrar, the Remarketing Agent, the Auction Agent, and any Paying Agent or Authenticating Agent, as appropriate, as Additional Payments hereunder.

The Company may, without creating a default hereunder, contest in good faith the reasonableness of any such cost or expense incurred or to be paid by the Issuer and any Administration Expenses claimed to be due to the Trustee, the Registrar, the Auction Agent, the Remarketing Agent, any Paying Agent or any Authenticating Agent.

In the event the Company should fail to pay any Loan Payments, Additional Payments or Administration Expenses as provided herein when due, the payment in default shall continue as an obligation of the Company until the amount in default shall have been fully paid together with interest thereon during the default period at the Interest Rate for Advances.

Section 4.3. Place of Payments. The Company shall make all Loan Payments directly to the Trustee at its Principal Office. Additional Payments shall be made directly to the person or entity to whom or to which they are due.

Section 4.4. Obligations Unconditional. The obligations of the Company to make Loan Payments, Additional Payments and any payments required of the Company under Section 5.09 of the 2006A Indenture shall be absolute and unconditional, and the Company shall make such payments without abatement, diminution or deduction regardless of any cause or circumstances whatsoever including, without limitation, any defense, set-off, recoupment or counterclaim which the Company may have or assert against the Issuer, the Trustee, the Registrar, the Remarketing Agent, the Auction Agent, the Paying Agent or any other Person.

Section 4.5. Assignment of Revenues and 2006A Agreement. To secure the payment of Bond Service Charges, the Issuer shall, by the 2006A Indenture, (a) absolutely and irrevocably assign to the Trustee, its successors in trust and its and their assigns forever, all of the Issuer's rights and remedies under this 2006A Agreement (except for the Unassigned Issuer Rights), and (b) grant a security interest to the Trustee, its successors in trust and its and their assigns forever, in all of its rights to and interest in the Revenues including, without limitation, all Loan Payments and other amounts receivable by or on behalf of the Issuer under the 2006A Agreement in respect of repayment of the Loan. The Company hereby agrees and consents to those assignments and that grant of a security interest.

Section 4.6. Bond Insurance Policy; Liquidity Facility; Cancellation.

(a) The Company agrees to support the payment of the principal of and interest on the 2006A Bonds by causing the Bond Insurance Policy to be delivered to the Trustee on the date of the delivery of the 2006A Bonds.

(b) The Company may provide for the delivery of a Liquidity Facility.

(c) The Company may cancel any Liquidity Facility then in effect at such time and direct the Trustee in writing to surrender such Liquidity Facility to the Liquidity Facility Issuer by which it was issued in accordance with the 2006A Indenture; provided, that no such cancellation shall become effective and no such surrender shall take place until all 2006A Bonds

subject to purchase pursuant to Section 4.07(d) of the Indenture have been so purchased or redeemed with the proceeds of such Liquidity Facility.

Section 4.7. Company's Option to Elect Rate Period; Changes in Auction Date and Length of Auction Periods. The Company shall have, and is hereby granted, the option to elect to convert on any Conversion Date the interest rate borne by the 2006A Bonds to another Variable Rate or to return to the Auction Rate, to be effective for a Rate Period pursuant to the provisions of Article II of the 2006A Indenture and subject to the terms and conditions set forth therein. The Company shall also have the option to direct the change of Auction Dates and/or the length of Auction Rate Periods (as such terms are defined in the 2006A Indenture) in accordance with the 2006A Indenture. To exercise such options, the Company shall give the written notice required by the 2006A Indenture.

Section 4.8. Company's Obligation to Purchase 2006A Bonds. The Company hereby agrees to pay or cause to be paid to the Trustee or the Paying Agent, on or before each day on which 2006A Bonds may be or are required to be tendered for purchase, amounts equal to the amounts to be paid by the Trustee or the Paying Agent with respect to the 2006A Bonds tendered for purchase on such dates pursuant to Article IV of the 2006A Indenture; provided, however, that the obligation of the Company to make any such payment under this Section shall be reduced by the amount of (A) moneys paid by the Remarketing Agent as proceeds of the remarketing of such 2006A Bonds by the Remarketing Agent, (B) moneys drawn under a Liquidity Facility, if any, for the purpose of paying such purchase price and (C) other moneys made available by the Company, as set forth in Section 4.08(b)(ii) of the 2006A Indenture.

(End of Article IV)

ARTICLE V.

ADDITIONAL AGREEMENTS AND COVENANTS

Section 5.1. Right of Inspection. The Company agrees that, subject to reasonable security and safety regulations and to reasonable requirements as to notice, the Issuer and the Trustee and their or any of their respective duly authorized agents shall have the right at all reasonable times to enter upon the Project Site to examine and inspect the Project.

Section 5.2. Maintenance. The Company shall use its best efforts to keep and maintain the Project Facilities, including all appurtenances thereto and any personal property therein or thereon, in good repair and good operating condition so that the Project Facilities will continue to constitute Pollution Control Facilities for the purposes of the operation thereof as required by Section 5.4 hereof.

So long as such shall not be in violation of the Act or impair the character of the Project Facilities as Pollution Control Facilities and provided there is continued compliance with applicable laws and regulations of governmental entities having jurisdiction thereof, the Company shall have the right to remodel the Project Facilities or make additions, modifications and improvements thereto, from time to time as it, in its discretion, may deem to be desirable for its uses and purposes, the cost of which remodeling, additions, modifications and improvements shall be paid by the Company and the same shall, when made, become a part of the Project Facilities.

Section 5.3. Removal of Portions of the Project Facilities. The Company shall not be under any obligation to renew, repair or replace any inadequate, obsolete, worn out, unsuitable, undesirable or unnecessary portions of the Project Facilities, except that, subject to Section 5.4 hereof, it will use its best efforts to ensure the continued character of the Project Facilities as Pollution Control Facilities. The Company shall have the right from time to time to substitute personal property or fixtures for any portions of the Project Facilities, provided that the personal property or fixtures so substituted shall not impair the character of the Project Facilities as Pollution Control Facilities. Any such substituted property or fixtures shall, when so substituted, become a part of the Project Facilities. The Company shall also have the right to remove any portion of the Project Facilities, without substitution therefor; provided, that the Company shall deliver to the Trustee a certificate signed by an Engineer describing said portion of the Project Facilities and stating that the removal of such property or fixtures will not impair the character of the Project Facilities as Pollution Control Facilities.

Section 5.4. Operation of Project Facilities. The Company will, subject to its obligations and rights to maintain, repair or remove portions of the Project Facilities, as provided in Sections 5.2 and 5.3 hereof, use its best efforts to continue operation of the Project Facilities so long as and to the extent that operation thereof is required to comply with laws or regulations of governmental entities having jurisdiction thereof or unless the Issuer shall have approved the discontinuance of such operation (which approval shall not be unreasonably withheld). The

Company agrees that it will, within the design capacities thereof, use its best efforts to operate and maintain the Project Facilities in accordance with all applicable, valid and enforceable rules and regulations of governmental entities having jurisdiction thereof; provided, that the Company reserves the right to contest in good faith any such laws or regulations.

Nothing in this 2006A Agreement shall prevent or restrict the Company, in its sole discretion, at any time, from discontinuing or suspending either permanently or temporarily its use of any facility of the Company served by the Project Facilities and in the event such discontinuance or suspension shall render unnecessary the continued operation of the Project Facilities, the Company shall have the right to discontinue the operation of the Project Facilities during the period of any such discontinuance or suspension.

Section 5.5. Insurance. The Company shall cause the Project Facilities to be kept insured against fire or other casualty to the extent that property of similar character is usually so insured by companies similarly situated and operating like properties (including self-insurance and self-insured retentions or deductibles generally consistent with industry practice), to a reasonable amount by reputable insurance companies or, in lieu of or supplementing such insurance in whole or in part, adopt some other method or plan of protection against loss by fire or other casualty at least equal in protection to the method or plan of protection against loss by fire or other casualty of companies similarly situated and operating properties subject to similar or greater fire or other hazards or on which properties an equal or higher primary fire or other casualty insurance rate has been set by reputable insurance companies.

Section 5.6. Workers' Compensation Coverage. Throughout the term of this 2006A Agreement, the Company shall comply, or cause compliance, with applicable workers' compensation laws of the State.

Section 5.7. Damage; Destruction and Eminent Domain. If, during the term of this 2006A Agreement, the Project Facilities or any portion thereof is destroyed or damaged in whole or in part by fire or other casualty, or title to, or the temporary use of, the Project Facilities or any portion thereof shall have been taken by the exercise of the power of eminent domain, the Company (unless it shall have exercised its option to prepay the Loan Payments pursuant to Section 6.2 hereof) shall promptly repair, rebuild or restore the portion of the Project Facilities so damaged, destroyed or taken with such changes, alterations and modifications (including the substitution and addition of other property) as may be necessary or desirable for the administration and operation of the Project Facilities as Pollution Control Facilities and as shall not impair the character or significance of the Project Facilities as furthering the purposes of the Act.

Section 5.8. Company to Maintain its Existence; Conditions Under Which Exceptions Permitted. The Company agrees that, during the term of this 2006A Agreement, it will maintain its existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or other entity or permit one or more other corporations or other entities to consolidate with or merge into it; provided that the

Company may, without violating its agreement contained in this Section, consolidate with or merge into another corporation or other entity, or permit one or more other entities to consolidate with or merge into it, or sell or otherwise transfer to another entity all or substantially all of its assets as an entirety and thereafter dissolve, provided the surviving, resulting or transferee entity, as the case may be (if other than the Company), is a corporation or other entity organized and existing under the laws of one of the states of the United States, and assumes in writing all of the obligations of the Company herein, and, if not organized under the laws of Kentucky, is qualified to do business in the State.

If consolidation, merger or sale or other transfer is made as provided in this Section, the provisions of this Section shall continue in full force and effect and no further consolidation, merger or sale or other transfer shall be made except in compliance with the provisions of this Section.

Section 5.9. Indemnification.

(a) The Company releases the Issuer from, agrees that the Issuer, the Trustee and the State shall not be liable for, and shall indemnify, defend and hold harmless the Issuer and the State from and against all liabilities, claims, costs, loss, penalty, tax and expenses, including attorneys fees and expenses of any nature imposed upon, incurred or asserted against the Issuer, the Trustee or the State on account of: (i) the acceptance or administration of the 2006A Indenture by the Trustee or the performance of the Issuer's duties thereunder, except with respect to liability from such Trustee's gross negligence or willful misconduct in connection with such action taken; (ii) any loss or damage to property or injury to or death of or loss by any person that may be occasioned by any cause whatsoever pertaining to the acquisition, construction, equipping, installation, maintenance, operation or use, non-use, condition or occupancy of the Project or a part thereof; (iii) any breach or default on the part of the Company in the performance of any covenant or agreement of the Company under this 2006A Agreement, the Bond Purchase Agreement or any contract or other document related to the Project or a part thereof, or arising from any act or failure to act or misrepresentation by the Company, or any of the Company's agents, contractors, servants, employees or licensees; (iv) violation of any law, ordinance, or regulation arising out of the ownership, occupancy, or use of the Project or a part thereof; (v) undertaking the Project or the failure to undertake the Project; (vi) any act, omitted act, or misrepresentation by the Issuer in connection with or in the performance of any obligation related to the issuance, sale, or delivery of (or failure to issue, sell, or deliver) the 2006A Bonds under this 2006A Agreement or the 2006A Indenture, or any other agreement executed by or on behalf of the Issuer (provided that nothing in this clause should be construed to indemnify or release the Issuer from any liability which it would otherwise have had arising from the intentional misrepresentation or willful misconduct on the part of the Issuer); (vii) the authorization, issuance, failure to issue, sale, remarketing, trading, redemption or servicing of the 2006A Bonds, and the provision of any information or certification furnished in connection therewith concerning the 2006A Bonds, the Project or the Company including, without limitation, the Official Statement (as defined in the Bond Purchase Agreement), any information furnished by the Company for, and included in, or used as a basis for preparation of, any

certifications, information statements or reports furnished by the Issuer (including, without limitation, IRS Form 8038), and any other information or certification obtained from the Company to assure the exclusion of the interest on the 2006A Bonds from gross income of the holders thereof for federal income tax purposes; (viii) the Company's failure to comply with, any requirement of this 2006A Agreement or the Code pertaining to such exclusion of that interest, including the covenants in Section 5.10 hereof and in the Tax Certificate; and (ix) any claim, action or proceeding brought with respect to the matters set forth in (i), (ii), (iii), (iv), (v), (vi), (vii) or (viii) above, except as limited or excluded based upon gross negligence, willful misconduct or intentional misrepresentation.

The Company agrees to indemnify the Trustee for, and to hold it harmless against, all liabilities, claims, and reasonable costs and expenses, including counsel fees and expenses, incurred without gross negligence or willful misconduct on the part of the Trustee on account of any action taken or omitted to be taken by the Trustee in accordance with the terms of this 2006A Agreement, the 2006A Bonds or the 2006A Indenture, or any action taken at the request of or with the consent of the Company, including the reasonable costs and expenses of the Trustee in defending itself against any such claim, action or proceeding brought in connection with the exercise or performance of any of its powers or duties under this 2006A Agreement, the 2006A Bonds or the 2006A Indenture.

In case any action or proceeding is brought against the Issuer or the Trustee in respect of which indemnity may be sought hereunder, the party seeking indemnity promptly shall give notice of that action or proceeding to the Company, and the Company upon receipt of that notice shall have the obligation and the right to assume the defense of the action or proceeding; provided, that failure of a party to give that notice shall not relieve the Company from any of the Company's obligations under this Section unless that failure materially prejudices the defense of the action or proceeding by the Company. An indemnified party at its own expense may employ separate counsel and participate in the defense, unless (i) the Company and the indemnified party shall have mutually agreed to the retention of such counsel, or (ii) the named parties to any such proceeding (including any impleaded parties) include both the Company and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. The Company shall not be liable for any settlement made without the Company's consent.

The release and indemnification by the Company set forth above is intended to and shall include the release and indemnification of all affected officials, directors, members, officers, employees, attorneys, agents, successors and assigns of the Issuer and the Trustee, respectively, past, present or future. Each release and/or indemnification is intended to and shall be enforceable by the Issuer and the Trustee, respectively, to the full extent permitted by law.

(b) Notwithstanding the foregoing, the Company shall be entitled to pursue its remedies against the Issuer for damages to the Company resulting directly from personal injury or property damage caused by the gross negligence or willful misconduct of the Issuer.

(c) No covenant or agreement contained in the 2006A Bonds or this 2006A Agreement shall be deemed to be a covenant or agreement of any member of the Issuer or of any officer or employee of the Issuer in his or her individual capacity, and neither the Issuer nor any officer or employee of the Issuer executing the 2006A Bonds shall be liable personally on the 2006A Bonds or be subject to any personal liability or accountability by reason of the issuance of the 2006A Bonds.

(d) The indemnity set forth herein shall be in addition to any other obligations of the Company to the holder or amounts due hereunder to the Issuer or at common law or otherwise, and shall survive any termination of this 2006A Agreement, the resignation or removal of the Trustee and the payment of all obligations hereunder.

Section 5.10. Company Not to Adversely Affect Exclusion of Interest on 2006A Bonds From Gross Income For Federal Income Tax Purposes. The Company hereby covenants and represents that it has taken and caused to be taken and shall take and cause to be taken all actions that may be required of it for the interest on the 2006A Bonds to be and remain excluded from the gross income of the Holders for federal income tax purposes, and that it has not taken or permitted to be taken on its behalf, and covenants that it will not take, or permit to be taken on its behalf, any action which, if taken, would adversely affect that exclusion under the provisions of the Code.

Section 5.11. Ownership of Project; Use of Project. The Issuer agrees that it does not have and shall not have any interest in, title to or ownership of the Project or the Project Site. The Issuer does hereby covenant and agree that it will not take any action, or cause any action to be taken on its behalf, during the term of this 2006A Agreement, other than pursuant to Article VII of this 2006A Agreement or Article VII of the 2006A Indenture, to interfere with the Company's ownership interest in the Project or to prevent the Company from having possession, custody, use and enjoyment of the Project, except such action as is requested by the Trustee in enforcing any remedies available to it under this 2006A Agreement or the 2006A Indenture.

Section 5.12. Assignment by Company. Notwithstanding any other provision of this 2006A Agreement, this 2006A Agreement may be assigned in whole or in part by the Company and the Project may be sold or conveyed by the Company without the necessity of obtaining the consent of either the Issuer or the Trustee and after providing written notice to the Issuer but, subject, however, to each of the following conditions:

(a) The Company must provide the Trustee and the Remarketing Agent with an Opinion of Bond Counsel that such action will not affect the exclusion of interest on the 2006A Bonds for federal income tax purposes.

(b) The Company shall, within 30 days after execution thereof, furnish or cause to be furnished to the Issuer and the Trustee a true and complete copy of each such assignment together with any instrument of assumption.

(c) Any assignment from the Company shall not materially impair fulfillment of the Project Purposes to be accomplished by operation of the Project as herein provided.

(End of Article V)

ARTICLE VI.

REDEMPTION

Section 6.1. Optional Redemption. Provided no Event of Default shall have occurred and be subsisting, at any time and from time to time, the Company may deliver moneys to the Trustee in addition to Loan Payments or Additional Payments required to be made and direct the Trustee to use the moneys so delivered for the purpose of calling 2006A Bonds for optional redemption in accordance with the applicable provisions of the 2006A Indenture providing for optional redemption at the redemption price stated in the 2006A Indenture. Pending application for those purposes, any moneys so delivered shall be held by the Trustee in a special account in the 2006A Bond Fund and delivery of those moneys shall not, except as set forth in Section 4.1 hereof, operate to abate or postpone Loan Payments or Additional Payments otherwise becoming due or to alter or suspend any other obligations of the Company under this 2006A Agreement.

Section 6.2. Extraordinary Optional Redemption. The Company shall have, subject to the conditions hereinafter imposed, the option during a Term Rate Period to direct the redemption of the 2006A Bonds in whole upon the occurrence of the event described below in paragraph (c) and in part upon the occurrence of the other events described below in accordance with the applicable provisions of the 2006A Indenture.

(a) The Project Facilities or the Generating Station shall have been damaged or destroyed to such an extent that (1) the Project Facilities or the Generating Station cannot reasonably be expected to be restored, within a period of six consecutive months, to the condition thereof immediately preceding such damage or destruction or (2) the Company is reasonably expected to be prevented from carrying on its normal use and operation of the Project Facilities or the Generating Station for a period of six consecutive months.

(b) Title to, or the temporary use of, all or a significant part of the Project Facilities or the Generating Station shall have been taken under the exercise of the power of eminent domain to such an extent that (1) the Project Facilities or the Generating Station cannot reasonably be expected to be restored within a period of six consecutive months to a condition of usefulness comparable to that existing prior to the taking or (2) the Company is reasonably expected to be prevented from carrying on its normal use and operation of the Project Facilities or the Generating Station for a period of six consecutive months.

(c) As a result of any changes in the Constitution of the State, the Constitution of the United States of America or any state or federal laws or as a result of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after any contest thereof by the Issuer or the Company in good faith, this 2006A Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed in this Agreement.

(d) Unreasonable burdens or excessive liabilities shall have been imposed upon the Issuer or the Company with respect to the Project Facilities or the Generating Station or the operation thereof, including, without limitation, the imposition of federal, state or other ad valorem, property, income or other taxes other than ad valorem taxes at the rates presently levied upon privately owned property used for the same general purpose as the Project Facilities or the Generating Station.

(e) Changes in the economic availability of raw materials, operating supplies, energy sources or supplies or facilities (including, but not limited to, facilities in connection with the disposal of industrial wastes) necessary for the operation of the Project Facilities or the Generating Station for the Project Purposes occur or technological or other changes occur which the Company cannot reasonably overcome or control and which in the Company's reasonable judgment render the Project Facilities or the Generating Station uneconomic or obsolete for the Project Purposes.

(f) Any court or administrative body shall enter a judgment, order or decree, or shall take administrative action, requiring the Company to cease all or any substantial part of its operations served by the Project Facilities or the Generating Station to such extent that the Company is or will be prevented from carrying on its normal operations at the Project Facilities or the Generating Station for a period of six consecutive months.

(g) The termination by the Company of operations at the Generating Station.

The amount payable by the Company in the event of its exercise of the option granted in this Section shall be the sum of the following:

(i) An amount of money which, when added to the moneys and investments held to the credit of the 2006A Bond Fund, will be sufficient pursuant to the provisions of the 2006A Indenture to pay, at 100% of the principal amount thereof plus accrued interest to the redemption date, and discharge, all or such portion of Outstanding Bonds to be redeemed on the earliest applicable redemption date, that amount to be paid to the Trustee, plus

(ii) An amount of money equal to the Additional Payments relating to those 2006A Bonds accrued and to accrue until actual final payment and redemption of those 2006A Bonds, that amount or applicable portions thereof to be paid to the Trustee or to the Persons to whom those Additional Payments are or will be due.

The requirement of (ii) above with respect to Additional Payments to accrue may be met if provisions satisfactory to the Trustee and the Issuer are made for paying those amounts as they accrue.

The rights and options granted to the Company in this Section may be exercised whether or not the Company is in default hereunder; provided, that such default will not relieve the Company from performing those actions which are necessary to exercise any such right or option granted hereunder.

Section 6.3. Mandatory Redemption. The Company shall deliver to the Trustee the moneys needed to redeem the 2006A Bonds in accordance with any mandatory redemption provisions relating thereto as may be set forth in Section 4.01(b) of the 2006A Indenture.

Section 6.4. Notice of Redemption. In order to exercise an option granted in, or to consummate a redemption required by, this Article VI, the Company shall, within 180 days following the event authorizing the exercise of such option, or at any time during the continuation of the condition referred to in paragraphs (c), (d) or (e) of Section 6.2 hereof, or at any time that optional redemption of the 2006A Bonds is permitted under the 2006A Indenture as provided in Section 6.1 hereof, or promptly upon the occurrence of a Determination of Taxability, give written notice to the Issuer and the Trustee that it is exercising its option to direct the redemption of 2006A Bonds, or that the redemption thereof is required by Section 4.01(b) of the 2006A Indenture due to the occurrence of a Determination of Taxability, as the case may be, in accordance with the 2006A Agreement and the 2006A Indenture, and shall specify therein the date on which such redemption is to be made, which date shall not be more than 180 days from the date such notice is mailed. The Company shall make arrangements satisfactory to the Trustee for the giving of the required notice of redemption to the Holders of the 2006A Bonds, in which arrangements the Issuer shall cooperate.

Section 6.5. Actions by Issuer. Subject to Section 4.2 hereof, at the request of the Company or the Trustee, the Issuer shall take all steps required of it under the applicable provisions of the 2006A Indenture or the 2006A Bonds to effect the redemption of all or a portion of the 2006A Bonds pursuant to this Article VI.

(End of Article VI)

ARTICLE VII.

EVENTS OF DEFAULT AND REMEDIES

Section 7.1. Events of Default. Each of the following shall be an Event of Default:

(a) The occurrence of an event of default as defined in Section 7.01 (a), (b), (c) or (d) of the 2006A Indenture;

(b) The Company shall fail to observe and perform any other agreement, term or condition contained in this 2006A Agreement, other than such failure as will have resulted in an event of default described in (a) above and the continuation of that failure for a period of 90 days after notice thereof shall have been given to the Company by the Issuer or the Trustee, or for such longer period as the Issuer and the Trustee may agree to in writing; provided, that failure shall not constitute an Event of Default so long as the Company institutes curative action within the applicable period and diligently pursues that action to completion within 150 days after the expiration of initial cure period as determined above, or within such longer period as the Issuer and the Trustee may agree to in writing;

(c) The receipt by the Trustee of written notice from the Bond Insurer that an event of default has occurred and is continuing under the Insurance Agreement;

(d) By decree of a court of competent jurisdiction the Company shall be adjudicated a bankrupt, or an order shall be made approving a petition or answer filed seeking reorganization or readjustment of the Company under the federal bankruptcy laws or other law or statute of the United States of America or of the state of incorporation of the Company or of any other state, or, by order of such a court, a trustee in bankruptcy, a receiver or receivers shall be appointed of all or substantially all of the property of the Company, and any such decree or order shall have continued unstayed on appeal or otherwise and in effect for a period of sixty (60) days; and

(e) The Company shall file a petition in voluntary bankruptcy or shall make an assignment for the benefit of creditors or shall consent to the appointment of a receiver or receivers of all or any part of its property, or shall file a petition seeking reorganization or readjustment under the Federal bankruptcy laws or other law or statute of the United States of America or any state thereof, or shall file a petition to take advantage of any debtors' act.

Notwithstanding the foregoing, if, by reason of Force Majeure, the Company is unable to perform or observe any agreement, term or condition hereof which would give rise to an Event of Default under subsection (b) hereof, the Company shall not be deemed in default during the continuance of such inability. However, the Company shall promptly give notice to the Trustee and the Issuer of the existence of an event of Force Majeure and shall use its best efforts to remove the effects thereof; provided that the settlement of strikes or other industrial disturbances shall be entirely within its discretion.

The exercise of remedies hereunder shall be subject to any applicable limitations of federal bankruptcy law affecting or precluding that declaration or exercise during the pendency of or immediately following any bankruptcy, liquidation or reorganization proceedings.

Section 7.2. Remedies on Default. Whenever an Event of Default shall have happened and be subsisting, either or both of the following remedial steps may be taken:

(a) The Issuer or the Trustee may have access to, inspect, examine and make copies of the books, records, accounts and financial data of the Company, only, however, insofar as they pertain to the Project; or

(b) The Issuer or the Trustee may pursue all remedies now or hereafter existing at law or in equity to recover all amounts, including all Loan Payments and Additional Payments and under Section 4.8 hereof the purchase price of 2006A Bonds tendered for purchase, then due and thereafter to become due under this 2006A Agreement, or to enforce the performance and observance of any other obligation or agreement of the Company under this 2006A Agreement.

Notwithstanding the foregoing, the Issuer shall not be obligated to take any step which in its opinion will or might cause it to expend time or money or otherwise incur liability unless and until a satisfactory indemnity bond has been furnished to the Issuer at no cost or expense to the Issuer. Any amounts collected as Loan Payments or applicable to Loan Payments and any other amounts which would be applicable to payment of Bond Service Charges collected pursuant to action taken under this Section shall be paid into the 2006A Bond Fund and applied in accordance with the provisions of the 2006A Indenture or, if the outstanding 2006A Bonds have been paid and discharged in accordance with the provisions of the 2006A Indenture, shall be paid as provided in Section 5.08 of the 2006A Indenture for transfers of remaining amounts in the 2006A Bond Fund.

The provisions of this Section are subject to the further limitation that the rescission and annulment by the Trustee of its declaration that all of the 2006A Bonds are immediately due and payable also shall constitute a rescission and annulment of any corresponding declaration made pursuant to this Section and a rescission and annulment of the consequences of that declaration and of the Event of Default with respect to which that declaration has been made, provided that no such rescission and annulment shall extend to or affect any subsequent or other default or impair any right consequent thereon.

Section 7.3. No Remedy Exclusive. No remedy conferred upon or reserved to the Issuer or the Trustee by this 2006A Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this 2006A Agreement, or now or hereafter existing at law, in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair that right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer or the Trustee to exercise any remedy reserved to it in this Article, it

shall not be necessary to give any notice, other than any notice required by law or for which express provision is made herein.

Section 7.4. Agreement to Pay Attorneys' Fees and Expenses. If an Event of Default should occur and the Issuer or the Trustee should incur expenses, including attorneys' fees, in connection with the enforcement of this 2006A Agreement or the collection of sums due hereunder, the Company shall be required, to the extent permitted by law, to reimburse the Issuer and the Trustee, as applicable, for the expenses so incurred upon demand.

Section 7.5. No Waiver. No failure by the Issuer or the Trustee to insist upon the strict performance by the Company of any provision hereof shall constitute a waiver of their right to strict performance and no express waiver shall be deemed to apply to any other existing or subsequent right to remedy the failure by the Company to observe or comply with any provision hereof.

Section 7.6. Notice of Default. The Company shall notify the Trustee, the Issuer and the Bond Insurer immediately if it becomes aware of the occurrence of any Event of Default hereunder or of any fact, condition or event which, with the giving of notice or passage of time or both, would become an Event of Default.

(End of Article VII)

ARTICLE VIII.

MISCELLANEOUS

Section 8.1. Term of Agreement. This 2006A Agreement shall be and remain in full force and effect from the date of delivery of the 2006A Bonds to the Underwriter until such time as (i) all of the 2006A Bonds shall have been fully paid (or provision made for such payment) and the Indenture has been released pursuant to Section 9.01 thereof and (ii) all other sums payable by the Company under this 2006A Agreement shall have been paid; provided, however, the obligations of the Company under Sections 4.2 and 5.9 hereof shall survive any termination of this 2006A Agreement.

Section 8.2. Amounts Remaining in Funds. Any amounts in the 2006A Bond Fund remaining unclaimed by the Holders of 2006A Bonds for four years after the due date thereof (whether at stated maturity, by redemption, upon acceleration or otherwise), at the option of the Company, shall be deemed to belong to and shall be paid, subject to Section 5.07 of the 2006A Indenture, at the written request of the Company, to the Company by the Trustee. With respect to that principal of and any premium and interest on the 2006A Bonds to be paid from moneys paid to the Company pursuant to the preceding sentence, the Holders of the 2006A Bonds entitled to those moneys shall look solely to the Company for the payment of those moneys. Further, any amounts remaining in the 2006A Bond Fund and any other special funds or accounts created under this 2006A Agreement or the 2006A Indenture, except the 2006A Rebate Fund, after all of the 2006A Bonds shall be deemed to have been paid and discharged under the provisions of the 2006A Indenture and all other amounts required to be paid under this 2006A Agreement and the 2006A Indenture have been paid, shall be paid to the Company to the extent that those moneys are in excess of the amounts necessary to effect the payment and discharge of the Outstanding Bonds.

Section 8.3. Notices. All notices, certificates, requests or other communications hereunder shall be in writing, except as provided in Section 3.4 hereof, and shall be deemed to be sufficiently given when mailed by registered or certified mail, postage prepaid, and addressed to the appropriate Notice Address. A duplicate copy of each notice, certificate, request or other communication given hereunder to the Issuer, the Company, the Trustee or the Bond Insurer shall also be given to the others. The Company, the Issuer, the Trustee or the Bond Insurer, by notice given hereunder, may designate any further or different addresses to which subsequent notices, certificates, requests or other communications shall be sent.

Section 8.4. Extent of Covenants of the Issuer; No Personal Liability. All covenants, obligations and agreements of the Issuer contained in this 2006A Agreement or the 2006A Indenture shall be effective to the extent authorized and permitted by applicable law. No such covenant, obligation or agreement shall be deemed to be a covenant, obligation or agreement of any present or future member, officer, agent or employee of the Issuer in other than his official capacity, and neither the members of the Issuer nor any official executing the 2006A Bonds shall be liable personally on the 2006A Bonds or be subject to any personal liability or accountability

by reason of the issuance thereof or by reason of the covenants, obligations or agreements of the Issuer contained in this 2006A Agreement or in the 2006A Indenture.

Section 8.5. Binding Effect. This 2006A Agreement shall inure to the benefit of and shall be binding in accordance with its terms upon the Issuer, the Company and their respective permitted successors and assigns provided that this 2006A Agreement may not be assigned by the Company (except as permitted under Sections 5.8 or 5.12 hereof) and may not be assigned by the Issuer except to (i) the Trustee pursuant to the 2006A Indenture or as otherwise may be necessary to enforce or secure payment of Bond Service Charges or (ii) any successor public body to the Issuer.

Section 8.6. Amendments and Supplements. Except as otherwise expressly provided in this 2006A Agreement or the 2006A Indenture, subsequent to the issuance of the 2006A Bonds and prior to all conditions provided for in the 2006A Indenture for release of the 2006A Indenture having been met, this 2006A Agreement may not be effectively amended, changed, modified, altered or terminated by the parties hereto except with the consents required by, and in accordance with, the provisions of Article XI of the 2006A Indenture, as applicable.

Section 8.7. Continuing Disclosure. The Issuer hereby acknowledges the entry by the Company into the Continuing Disclosure Agreement under which the Company has assumed certain obligations for the benefit of the Holders of the 2006A Bonds. The Company agrees to perform its obligations under the Continuing Disclosure Agreement. The Company acknowledges and agrees that the Issuer is not an "obligated person" (as defined in the Continuing Disclosure Agreement) with respect to the 2006A Bonds and represents that the Company is the only obligated person with respect to the 2006A Bonds. Notwithstanding any other provision of this 2006A Agreement, any failure by the Company to comply with any provision of the Continuing Disclosure Agreement shall not be a failure or a default, or an Event of Default, under this 2006A Agreement or the 2006A Indenture.

Section 8.8. Execution Counterparts. This 2006A Agreement may be executed in any number of counterparts, each of which shall be regarded as an original and all of which shall constitute but one and the same instrument.

Section 8.9. Severability. If any provision of this 2006A Agreement, or any covenant, obligation or agreement contained herein is determined by a judicial or administrative authority to be invalid or unenforceable, that determination shall not affect any other provision, covenant, obligation or agreement, each of which shall be construed and enforced as if the invalid or unenforceable portion were not contained herein. That invalidity or unenforceability shall not affect any valid and enforceable application thereof, and each such provision, covenant, obligation or agreement shall be deemed to be effective, operative, made, entered into or taken in the manner and to the full extent permitted by law.

Section 8.10. Governing Law. This 2006A Agreement shall be deemed to be a contract made under the laws of the State and for all purposes shall be governed by and construed in accordance with the laws of the State.

(End of Article VIII)

IN WITNESS WHEREOF, the Issuer and the Company have caused this 2006A Agreement to be duly executed in their respective names, all as of the date hereinbefore written.

COUNTY OF BOONE, KENTUCKY

By: Gary W. Moore
Name:
Title:

Attest:

Louis Kelly, Fiscal Court Clerk

UNION LIGHT, HEAT AND POWER COMPANY (doing business as DUKE ENERGY KENTUCKY, INC.)

By: _____

EXHIBIT A

1985 PROJECT

EXHIBIT A

PROJECT DESCRIPTION

EAST BEND STATION
POLLUTION CONTROL FACILITIES

The Pollution Control Facilities are designed to control the emission of particulates and sulfur dioxide to the atmosphere and various pollutants to the Ohio River.

(1) Electrostatic Precipitator System

The electrostatic precipitator system will control the release of fly ash and includes the construction and installation of a precipitator and related ductwork and foundation.

(2) Flue Gas Desulfurization System

The Flue Gas Desulfurization System is designed to control sulfur dioxide present in flue gases. Flue gases will be transmitted from the precipitators to the scrubber, where they will be reacted with a liquified calcium hydroxide solution utilized in the scrubbing process as a reactive agent. Sulphur dioxide contained in flue gases undergoes chemical reaction upon contact with calcium hydroxide, with resultant formation of noncommercial calcium sulfite and calcium sulfate sludges. The sulphur dioxide scrubber is designed to remove 87% of airborne sulphur dioxide and will also remove a portion of any particulate matter remaining after electrostatic precipitation, before emission of the cleansed gases to the atmosphere. The sulphur dioxide scrubber system will be composed of the scrubber itself, associated ductwork, structural supports and piping, electric elements, reactive tanks for holding the reactive agents, surge tanks, vacuum system and recycling and thickening tanks from which the resulting calcium sulfite and calcium sulfate is dewatered and withdrawn for final disposal. There will also be acquired and installed certain functionally related facilities to prepare reactant materials for use in scrubbers, together with pumps, mixers and holding tanks and conveyors and other transport mechanisms situated at or near reactant reception facilities in close proximity to the generating station for the receipt of reactants and transmission thereof to storage facilities or directly to the sulphur dioxide removal system.

(3) Wastewater Disposal Facilities

The Wastewater Disposal System includes facilities for the collection, transportation and disposal of wastewater from the boiler room (including sumps, pumps and piping) and a sewage treatment plant with a capacity of 10,000 gallons per day. Wastewater collected from the boiler room will be treated by sedimentation for settleable solids removal, neutralization and oil removal. Sanitary wastes from the Station are treated at the sewage treatment plant to remove settleable solids and biological oxygen demand, chlorinated and discharged to the ash basin.

EXHIBIT B

1992/1994 PROJECT

EXHIBIT A

TO

LOAN AGREEMENT

DATED AS OF OCTOBER 1, 1979

BETWEEN

THE COUNTY OF BOONE, KENTUCKY, AND
THE DAYTON POWER AND LIGHT COMPANY

PART I

THE PROJECT

Facilities to be Acquired, Constructed and Installed at the East Bend Generating Station, Unit 2, and financed in part (49%) by Application of the Proceeds of the 1979 Series A Bonds in Accordance with this Agreement and the Indenture

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EAST BEND GENERATING STATION
UNIT 2

ELECTROSTATIC PRECIPITATORS

Electrostatic precipitators will be installed to serve Unit 2 of the East Bend Generating Station. Unit 2 of the East Bend Generating Station is a new coal-fired steam electric generating unit, and the precipitators are and will be installed simultaneously with construction and installation of the generating unit itself. The electrostatic precipitators, together with functionally related and associated structural supports and ductwork are solely designed and intended to reduce particulate loading of flue gases by removal of flyash and particulates from flue gases exiting the Unit 2 steam boiler. The precipitators are designed to remove 99.6% of particulate emissions and flyash when the steam boiler is being operated. The precipitators operate upon the principle of creation of an electromagnetic field which attracts and captures particulate

matter (flyash) from the flue gases. The flyash is then removed and conveyed to silos. Thereafter, the flyash is conveyed by pneumatic systems to a sludge and flyash processing facility or to an ash pond for ultimate disposal.

SULPHUR DIOXIDE REMOVAL SYSTEM

A complete sulphur dioxide removal system (scrubber) will be provided for the East Bend Generating Station, Unit 2. Following electrostatic precipitation, flue gases will be transmitted from the precipitators to the scrubber, where they will be reacted with a liquified calcium hydroxide solution utilized in the scrubbing process as a reactive agent. Sulphur dioxide contained in flue gases undergoes chemical reaction upon contact with calcium hydroxide, with resultant formation of non-commercial calcium sulfite and calcium sulfate sludges. The sulphur dioxide scrubber is designed to remove 87% of airborne sulphur dioxide and will also remove a portion of any particulate matter remaining after electrostatic precipitation, before emission of the cleansed gases to the atmosphere. The sulphur dioxide scrubber system will be composed of the scrubber itself, associated ductwork, structural supports and piping, electric elements, reactive tanks for holding the reactive agents and recycling and thickening tanks from which the resulting calcium sulfite and calcium sulfate is withdrawn for final disposal. There will also be acquired and installed certain functionally related facilities to prepare reactant materials for use in scrubbers, together with pumps, mixers and holding tanks and conveyors and other transport mechanisms situated at or near reactant reception facilities in close proximity to the generating station for the receipt of reactants and transmission thereof to storage facilities or directly to the sulphur dioxide removal system.

SOLID WASTE DISPOSAL FACILITIES

Sludge produced by the sulphur dioxide removal system will be conveyed, together with flyash collected by the electrostatic precipitators, to the sludge and flyash processing facility, where sludge and flyash will be mixed with lime, dewatered and prepared for ultimate disposal. The system consists of receptacles for the storage and handling of flyash, lime and sludge, mixers, sludge pits, pumps, dewatering and solids-formation pads for receipt of the final waste product together with functionally related and subordinate facilities.

COOLING TOWER

A mechanical draft cooling tower with a closed-loop water system will be provided for the East Bend Generating Station, Unit 2. The purpose of the cooling tower is to transfer to the atmosphere the heat absorbed by waters circulated through the

condenser, which condenses low pressure steam discharged from the steam driven electric turbine. The closed-loop system with cooling tower is designed to minimize the release of heated water (thermal pollution) to the Ohio River and is required in order to conform to applicable water pollution control regulations. The described water pollution control and abatement facility consists of a mechanical draft cooling tower, pumps, circulating water pipes, structural supports and associated and related equipment. Because a portion of the cost of the closed-loop cooling tower is allocable to cost savings resulting because an alternate facility need not be constructed which would, without any pollution control restrictions, be an adequate facility to cycle water to and from the generating unit, only an incremental portion of the closed-loop cooling tower is deemed to be a Project facility.

WASTEWATER DISPOSAL FACILITIES

Sumps, piping, a sewage treatment plant, a neutralization basin and an ash pond will be acquired and constructed to provide for the disposal of various liquid wastes, including oil, chemicals, contaminated water and flow-off from coal piles.

ENGINEERING FEES, RESIDENT INSPECTION, CAPITALIZED INTEREST AND TEST COSTS

Sargent & Lundy, Consulting Engineers of Chicago, Illinois, and other firms have acted as Engineers to the Company in designing the Project facilities and have performed and will perform resident inspection services with respect thereto. Such costs, together with Company costs directly attributable to design and construction of the Project, capitalized interest and the testing of Project facilities are a part of the Project.

PART II

ADDITIONAL POLLUTION CONTROL FACILITIES

The pollution control facilities constituting the Project as described in Part I of this Exhibit A represent a portion of all of the pollution control facilities intended to be acquired, constructed and installed at the East Bend Generating Station, Units 1 and 2, which complete pollution control facilities are described in that certain Memorandum of Agreement dated as of February 17, 1976, by and between the County of Boone, Kentucky, The Cincinnati Gas & Electric Company and The Dayton Power and Light Company, as follows:

DESCRIPTION OF POLLUTION CONTROL FACILITIES
TO BE CONSTRUCTED IN CONNECTION WITH UNIT 1 AND
UNIT 2 OF THE EAST BEND GENERATING STATION
(BOONE COUNTY, KENTUCKY)

THE CINCINNATI GAS & ELECTRIC COMPANY
AND
THE DAYTON POWER AND LIGHT COMPANY

The Project will consist of air, solid waste and water pollution control and abatement facilities and systems. The Project will be installed in conjunction with the construction of Unit 1 and Unit 2 of an electric generation facility now known as the East Bend Generating Station, being constructed by The Cincinnati Gas & Electric Company and The Dayton Power and Light Company, to be situated near the community of Rabbit Hash, in Boone County, Kentucky, on the Ohio River.

The Project facilities and systems hereafter described are designed and are to be installed and utilized solely and only for the collection, removal, abatement, alteration, control, containment and disposition of atmospheric, solid waste and water pollutants so that gaseous and liquid emissions and sanitary effluent from Unit 1 and Unit 2 of the East Bend Generating Station meet applicable governmental air and water quality standards or limitations.

The following, together with necessary appurtenant and incidental facilities, constitute the major components of the Project:

ELECTROSTATIC PRECIPITATORS

Electrostatic precipitators or other comparable particulate control devices will be constructed in connection with Unit 1 and Unit 2, together with associated structural supports, power modules and electrical substations, and necessary and incidental ductwork. The electrostatic precipitators or other particulate control devices will be designed and intended solely and only to remove flyash and particulate matter from flue gases exiting the coal-fired steam boilers. Such air pollution control devices will be designed to at least meet or exceed applicable governmental air quality standards or limitations.

FLUE GAS DUCT SYSTEMS

Proposed flue gas duct systems will be designed to convey untreated boiler flue gases emitted from the steam boilers to the electrostatic precipitators or comparable particulate control devices where particulate emissions and flyash will be removed.

Induced draft fans and booster fans, as appropriate, will form an integral part of the flue gas duct systems. The system will convey partially cleansed flue gases to the sulphur dioxide removal systems following particulate removal.

FLYASH STORAGE SILOS AND ASSOCIATES FACILITIES

Flyash and particulate loadings removed from boiler flue gases by electrostatic precipitators or other particulate removal devices and collected from economizer hoppers and air heater hoppers will be conveyed either to storage silos for removal from the site in dry form or to proposed waste retention basin or basins, or central storage and removal facilities. Incorporated into all flyash storage silos will be bag-house filter systems for the control of dust.

ASH HANDLING AND TRANSPORT SYSTEMS

Proposed ash handling and transport systems will be either air or water pressure motivated. If water pressure motivated, the systems will utilize blowdown from proposed water cooling towers. If air pressure motivated, the systems will utilize compressors, fans or hydraulic facilities. In either case, the ash handling and transport systems will be designed to convey ash from collection hoppers at various generating station facilities to either (i) storage silos, (ii) ash retention basins, or (iii) other ash disposal facilities. Certain roadways solely for transportation of wastes will be constructed.

WASTE RETENTION BASINS

Proposed waste retention basins, involving substantial land, will be situated at the generating station and will serve no other purpose but to receive, contain and neutralize (i) flyash and particulate matter captured by operation of the electrostatic precipitators or by the dust control systems, (ii) bottom ash produced by operation of the coal-fired steam generators, (iii) liquid wastes produced by coal pile runoffs, chemical spills, oil spills and other causes (with exception of sanitary wastes which are treated by a separate sanitary sewer facility), and (iv) acid and caustic liquid wastes produced by boiler operations. The waste retention basins will allow neutralization of wastes collected therein, will function on the gravity-settling principle and will incorporate barriers and skimmers as appropriate to prevent floating flyash and floating liquid wastes, including waste oils, from being transmitted to the water source (Ohio River).

OIL ELIMINATION SYSTEM

An oil elimination and control system will be incorporated in each generating unit, which will collect oil runoffs, exudations

and spills and convey them to a central oil waste receptacle for skimming and separation of oils from watery effluent.

COAL DUST CONTROL SYSTEM

The proposed coal dust control system will provide facilities to prevent atmospheric pollution while coal is being conveyed from the coal storage and/or coal unloading facilities to the boilers. Coal is proposed to be transported from river barges by means of a mechanical unloader and conveyed to transfer houses where it will be crushed and thence delivered to coal storage bunkers by belt conveyors. The coal conveyor systems will be covered as required, and additional coal dust control devices will be employed at each transfer point and at the coal storage bunkers.

WATER COOLING TOWERS AND ASSOCIATED EQUIPMENT

Water cooling towers, complete with all necessary associated equipment, will be provided to remove heat (thermal pollution) from the steam turbine exhausts. The heat will be dissipated to the atmosphere and cooling tower blowdown streams will be utilized as required, to provide motive power for transporting bottom ash, flyash and other wastes to the waste retention basins or other waste disposal facilities.

SANITARY SEWAGE TREATMENT PLANT

A sanitary sewage treatment plant and necessary appurtenances will be constructed upon the generating station site to meet appropriate federal, state and local requirements. Such treatment plant will be adequate to serve all personnel permanently assigned to the generating station as well as all members of construction crews on the premises during construction of the East Bend Generating Station.

SULPHUR DIOXIDE REMOVAL SYSTEMS

Sulphur dioxide removal systems will be installed as appropriate, dependent upon the sulphur content of coal utilized in the generating process and regulatory requirements. Such facilities will be designed to reduce sulphur dioxide emissions to such level as will meet or exceed applicable governmental air quality standards or limitations. The sulphur dioxide removal facilities may utilize either the "wet scrubber" system, or such other system as at the time of design represents the most appropriate technology for the site and will meet or exceed applicable governmental air quality standards or limitations.

SLUDGE RETENTION BASINS

Sulphur dioxide removal systems may produce substantial solid or liquid waste byproducts. Dependent upon the sulphur dioxide removal process used, sludge retention basins will be provided to receive and hold such liquid and/or solid waste products for ultimate disposition.

AUXILIARY FACILITIES ASSOCIATED WITH SULPHUR DIOXIDE REMOVAL EQUIPMENT

Dependent upon the technology to be utilized, the sulphur dioxide removal systems will require facilities for reception of reactant material, together with holding vats or ponds, transmission lines, reactant tanks, pumps, sprays, transmission facilities and other associated structures and facilities.

ELEVATED FLUE GAS DIFFUSER

Proposed elevated flue gas diffusers (chimneys) will be constructed to maximize diffusion of stack gases produced by operation of the generating station.

MONITORING EQUIPMENT

Monitoring equipment, as required by appropriate laws and regulations, will be installed to monitor liquid discharges, solid waste discharges, stack gas discharges and ambient air quality.

ENGINEERING COSTS, RESIDENT INSPECTIONS, TEST COSTS AND ISSUANCE COSTS

Amounts representing engineering costs, resident inspection and testing of Project facilities, together with actual costs of Project facilities and bond issuance costs, will form a part of the Project.

LOAN AGREEMENT

between

COUNTY OF BOONE, KENTUCKY

and

THE UNION LIGHT, HEAT AND POWER COMPANY
(doing business as DUKE ENERGY KENTUCKY, INC.)

$26,720,000
County of Boone, Kentucky
Pollution Control Revenue Refunding Bonds,
Series 2006B
(Duke Energy Kentucky, Inc. Project)

Dated
as of
August 1, 2006

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LOAN AGREEMENT

THIS LOAN AGREEMENT is made and entered into as of August 1, 2006, between the COUNTY OF BOONE, KENTUCKY (the "Issuer"), a de jure county and a political subdivision of the Commonwealth of Kentucky (the "State"), and THE UNION LIGHT, HEAT AND POWER COMPANY (doing business as DUKE ENERGY KENTUCKY, INC.) (the "Company"), a public utility and corporation duly organized and validly existing under the laws of the State. Capitalized terms used in the following recitals are used as defined in Article I of this Agreement.

WHEREAS, the Issuer, at the request of The Cincinnati Gas & Electric Company ("CG&E"), previously issued its Floating Rate Monthly Demand Pollution Control Revenue Refunding Bonds, Series 1985 A (The Cincinnati Gas & Electric Company Project) in the aggregate principal amount of $16,000,000 (the "1985 Bonds"), the proceeds of which were used to refund the Issuer's Pollution Control Revenue Bonds, 1982 Series A (The Cincinnati Gas & Electric Company Project) (the "1982 Bonds"), which bonds were issued to finance CG&E's share of the cost of acquisition, construction, improvement and equipping of certain air and water pollution control facilities and solid waste disposal facilities located within the corporate boundaries of the Issuer (the "1985 Project") at the Generating Station; and

WHEREAS, the Issuer, at the request of The Dayton Power and Light Company ("DP&L"), previously issued its 6.5% Collateralized Pollution Control Revenue Refunding Bonds, 1992 Series A (The Dayton Power and Light Company Project) in the aggregate principal amount of $48,000,000 (the "1992 Bonds"), currently outstanding in the aggregate principal amount of $12,720,000, the proceeds of which were used to refund the Issuer's Pollution Control Revenue Bonds (The Dayton Power and Light Company Project), 1979 Series A (the "1979 DP&L Bonds"), which bonds were issued to finance DP&L's share of the cost of acquisition, construction, improvement and equipping of certain air and water pollution control facilities and solid waste disposal facilities located within the corporate boundaries of the Issuer at the Generating Station (the "1992/1994 Project"); and

WHEREAS, the Issuer, at the request of CG&E, previously issued its 5-1/2% Collateralized Pollution Control Revenue Refunding Bonds, 1994 Series A (The Cincinnati Gas & Electric Company Project) in the aggregate principal amount of $48,000,000 (the "1994 Bonds"), the proceeds of which were used to refund the Issuer's Pollution Control Revenue Bonds (The Cincinnati Gas & Electric Company Project), 1979 Series A (the "1979 CG&E Bonds"), which bonds were issued to finance CG&E's share of the cost of acquisition, construction, improvement and equipping of the 1992/1994 Project at the Generating Station; and

WHEREAS, pursuant to an Assignment and Assumption Agreement dated as of September 30, 2005, CG&E assumed DP&L's duties and obligations with respect to the Refunded Series 1992A Bonds; and

WHEREAS, pursuant to a Debt Assumption Agreement dated as of January 1, 2006, the Company assumed CG&E's duties and obligations with respect to the 1985 Bonds, the 1992 Bonds and the 1994 Bonds; and

WHEREAS, pursuant to the Act, the Issuer has determined to issue, sell and deliver its Pollution Control Revenue Refunding Bonds, Series 2006A (Duke Energy Kentucky, Inc. Project) in the aggregate principal amount of $50,000,000 (the "2006A Bonds") pursuant to a Trust Indenture dated as of August 1, 2006 (the "2006A Indenture") and to lend the proceeds derived from the sale thereof to the Company pursuant to this Loan Agreement (the "2006A Agreement") to assist in the refunding of the entire outstanding principal amount of the 1985 Bonds, a portion of the outstanding principal amount of the 1992 Bonds, and a portion of the outstanding principal amount of the 1994 Bonds (collectively referred to herein as the "Refunded Bonds"); and

WHEREAS, pursuant to the Act, the Issuer has determined to issue and sell its Pollution Control Revenue Refunding Bonds, Series 2006B (Duke Energy Kentucky, Inc. Project) in the aggregate principal amount of $26,720,000 (the "2006B Bonds") pursuant to a Trust Indenture dated as of August 1, 2006 (the "2006B Indenture") between the Issuer and the Trustee in order to obtain funds to loan to the Company pursuant to a Loan Agreement dated as of August 1, 2006 (the "2006B Agreement") between the Issuer and the Company in order to provide funds for the refunding of the remaining portion of the remaining outstanding principal amount of the 1994 Bonds; and

WHEREAS, this 2006B Agreement provides for the repayment by the Company of the loan of the proceeds of the 2006B Bonds and further provides for such loan to be secured by the lien and security interest provided for in this 2006B Agreement; and

WHEREAS, pursuant to the 2006B Indenture, the Issuer will assign certain of its rights under this 2006B Agreement as security for the 2006B Bonds which are payable solely out of the payments to be made by the Company under this 2006B Agreement and the security interests granted thereby, except to the extent paid out of 2006B Bond proceeds and proceeds of condemnation and insurance; and

WHEREAS, the execution and delivery of this 2006B Agreement and the 2006B Indenture and the issuance of the 2006B Bonds thereunder have been in all respects duly and validly authorized by a bond ordinance duly passed and approved by the Issuer.

NOW THEREFORE, in consideration of the premises and the mutual representations and agreements hereinafter contained, the Issuer and the Company agree as follows (provided that any obligation of the Issuer or the State created by or arising out of this 2006B Agreement shall never constitute a general debt of the Issuer or the State or give rise to any pecuniary liability of the Issuer or the State but shall be payable solely out of Revenues, including the Loan Payments made pursuant hereto):

ARTICLE I.

DEFINITIONS

Section 1.1. Use of Defined Terms. In addition to the words and terms defined elsewhere in this 2006B Agreement, the 2006B Indenture or by reference to another document, the words and terms set forth in Section 1.2 hereof shall have the meanings set forth therein unless the context or use clearly indicates another meaning or intent. Such definitions shall be equally applicable to both the singular and plural forms of any of the words and terms defined therein. Any terms not defined herein but defined in the 2006B Indenture shall have the same meaning herein.

Section 1.2. Definitions. As used herein:

"Act" means Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes.

"Additional Payments" means the amounts required to be paid by the Company pursuant to the provisions of Section 4.2 hereof.

"Administration Expenses" means the compensation (which compensation shall not be greater than that typically agreed to in writing by the Company) and reimbursement of reasonable out-of-pocket expenses, including legal fees and expenses, and advances payable to the Trustee, the Registrar, the Remarketing Agent, the Broker-Dealer, the Auction Agent, any Paying Agent and any Authenticating Agent.

"Bond Insurer" means XL Capital Assurance Inc..

"Bond Insurance Policy" means the insurance policy relating to the 2006B Bonds issued by the Bond Insurer.

"Bond Purchase Agreement" means the bond purchase agreement entered into between the Issuer and the Underwriter relating to the 2006A Bonds and the 2006B Bonds.

"Bond Service Charges" means, for any period or time, the principal of, premium, if any, and interest on the 2006B Bonds for that period or payable at that time whether due at maturity, upon redemption, or upon acceleration.

"Company" means The Union Light, Heat and Power Company (doing business as Duke Energy Kentucky, Inc.), a public utility and corporation duly organized and validly existing under the laws of the State, and its lawful successors and assigns, to the extent permitted by the Agreement.

"Engineer" means an engineer (who may be an employee of the Company) or engineering firm qualified to practice the profession of engineering under the laws of the State.

"Event of Default" means any of the events described as an Event of Default in Section 7.1 hereof.

"Force Majeure" means any of the following:

(i) acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States of America or of the State or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; civil disturbances; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; tornados; storms; droughts; floods; arrests; restraint of government and people; explosions; breakage, nuclear accidents or other malfunction or accident to facilities, machinery, transmission pipes or canals; partial or entire failure of a utility serving the Project; shortages of labor, materials, supplies or transportation; or

(ii) any cause, circumstance or event not reasonably within the control of the Company.

"Generating Station" means the East Bend Generating Station located near Union, Kentucky.

"Insurance Agreement" means the Insurance Agreement between the Company and the Bond Insurer as amended or supplemented from time to time.

"Interest Rate for Advances" means the interest rate per year payable on the 2006B Bonds.

"Liquidity Facility" means a liquidity facility as defined in the 2006B Indenture.

"Loan" means the loan by the Issuer to the Company of the proceeds received from the sale of the 2006B Bonds.

"Loan Payment Date" means a date which is two Business Days preceding any date on which any Bond Service Charges are due and payable.

"Loan Payments" means the amounts required to be paid by the Company in repayment of the Loan pursuant to Section 4.1 hereof.

"Notice Address" means:

(a) As to the Issuer:
County of Boone, Kentucky
Boone County Courthouse
Burlington, Kentucky 41005
Attention: County Judge/Executive

(b) As to the Company:
The Union Light, Heat and Power Company
c/o Duke Energy Corporation
526 South Church Street
Charlotte, North Carolina 28202
Attention: Treasurer

(c) As to the Trustee:
Deutsche Bank National Trust Company
222 South Riverside Plaza, 25th Floor
Mail Code: CH 105-2502
Chicago, Illinois 60606
Attention: Corporate Trust

(c) If to the Remarketing Agent:
Morgan Stanley & Co. Incorporated
1221 Avenue of the Americas
New York, New York 10020
Attention: Remarketing Coordinator

(d) If to Moody's:
Moody's Investors Service
99 Church Street
New York, New York 10007; and

(e) If to S&P:
Standard & Poor's
25 Broadway
New York, New York 10004

(f) If to the Bond Insurer:
XL Capital Assurance Inc.
1221 Avenue of the Americas, 31st Floor
New York, New York 10020-1001
Attention: Drew Hoffmann, Surveillance Department
Telephone: (212) 478-3400
Facsimile: (212) 478-3587

and

Attention: Susan Comparato, Esq., General Counsel
Telephone: (212) 478-3474
Facsimile: (212) 478-3446

(g) If to the Auction Agent:
Deutsche Bank Trust Company Americas
60 Wall Street
New York, New York 10005
Attention: Auction Rate Securities

or such additional or different address, notice of which is given under Section 8.3 hereof.

"Opinion of Bond Counsel" means a written opinion of nationally recognized bond counsel selected by the Company and acceptable to the Trustee who is experienced in matters relating to the exclusion from gross income for federal income tax purposes of interest on obligations issued by states and their political subdivisions. Bond Counsel may be counsel to the Trustee or the Company.

"Person" or words importing persons mean firms, associations, partnerships (including without limitation, general and limited partnerships), limited liability entities, joint ventures, societies, estates, trusts, corporations, public or governmental bodies, other legal entities and natural persons.

"Pollution Control Facility" or "Pollution Control Facilities" means pollution control facilities as that term is defined in KRS 103.246 and also refers to "air and water pollution control facilities" and "solid waste disposal facilities: within the meaning of Sections 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended.

"Project" or "Project Facilities" means, collectively, the 1985 Project and the 1992/1994 Project.

"Project Costs" means the costs of the Project specified in Section 3.4 hereof.

"Project Purposes" means the purposes of Pollution Control Facilities and related facilities as described in the Act and as particularly described in Exhibits A and B hereto.

"Project Site" means the Generating Station.

"Refunded Bonds" means the remaining outstanding principal amount of the 1994 Bonds.

"Refunded Bonds Agreements" means the 1994 Agreement.

"Refunded Bonds Indentures" means the 1994 Indenture.

"Refunded Bonds Trustees" means the 1994 Trustee.

"Refunding Fund" means the 2006B Refunding Fund created in the 2006B Indenture.

"Register" means the books kept and maintained by the Registrar for registration and transfer of 2006B Bonds pursuant to Section 3.05 of the 2006B Indenture.

"Registrar" means Deutsche Bank National Trust Company, Chicago, Illinois, until a successor Registrar shall have become such pursuant to applicable provisions of the 2006B Indenture.

"Revenues" means (a) the Loan Payments, (b) all other moneys received or to be received by the Issuer (excluding any fees paid to the Issuer and all Unassigned Issuer Rights) or the Trustee in respect of repayment of the Loan, including without limitation, all moneys and investments in the 2006B Bond Fund, (c) any moneys and investments in the 2006B Refunding Fund, and (d) all income and profit from the investment of the foregoing moneys. The term "Revenues" does not include any moneys or investments in the 2006B Rebate Fund or the 2006B Bond Purchase Fund.

"State" means the Commonwealth of Kentucky.

"Tax Certificate" means the Tax Certificate of the Company dated August 2, 2006.

"Trustee" means Deutsche Bank National Trust Company, a national banking association duly organized and validly existing under the laws of the United States of America and duly authorized to exercise corporate trust powers, until a successor Trustee shall have become such pursuant to the applicable provisions of the 2006B Indenture, and thereafter "Trustee" shall mean the successor Trustee. "Principal Office" of the Trustee shall mean the corporate trust office of the Trustee, which office at the date of issuance of the 2006B Bonds is located at its Notice Address.

"Unassigned Issuer Rights" means all of the rights of the Issuer to receive Additional Payments under Section 4.2 hereof, to inspection pursuant to Section 5.1 hereof, to be held harmless and indemnified under Section 5.9 hereof, to be reimbursed for attorney's fees and expenses under Section 7.4 hereof and to give or withhold consent to amendments, changes, modifications, alterations and termination of this 2006B Agreement under Section 8.6 hereof and its right to enforce such rights.

"Underwriter" means Morgan Stanley & Co. Incorporated as the original purchaser of the 2006B Bonds.

"1985 Agreement" means the Loan Agreement dated as of February 1, 1985 between the Issuer and The Cincinnati Gas & Electric Company.

"1985 Bonds" means the $16,000,000 Floating Rate Monthly Demand Pollution Control Revenue Refunding Bonds, Series 1985 A (The Cincinnati Gas & Electric Company Project).

"1985 Indenture" means the Trust Indenture dated as of February 1, 1985 between the Issuer and the 1985 Trustee.

"1985 Project" or "1985 Project Facilities" means the real, personal or real and personal property, including undivided or other interests therein, identified in the 1985 Project Description.

"1985 Project Description" means the description of the 1985 Project Facilities attached hereto as Exhibit A.

"1985 Trustee" means The Bank of New York Trust Company, N.A., as successor to The Fifth Third Bank.

"1992 Agreement" means the Loan Agreement dated as of November 15, 1992 between the Issuer and The Dayton Power and Light Company.

"1992 Bonds" means the $48,000,000 County of Boone, Kentucky 6.5% Collateralized Pollution Control Revenue Refunding Bonds, 1992 Series A (The Dayton Power and Light Company Project), currently outstanding in the aggregate principal amount of $12,720,000.

"1992 Indenture" means the Trust Indenture dated as of November 15, 1992 between the Issuer and the 1992 Trustee.

"1992/1994 Project" or "1992/1994 Project Facilities" means the real, personal or real and personal property, including undivided or other interests therein, identified in the 1992/1994 Project Description.

"1992/1994 Project Description" means the description of the 1992/1994 Project Facilities attached hereto as Exhibit B.

"1992 Trustee" means The Bank of New York Trust Company, N.A..

"1994 Agreement" means the Loan Agreement dated as of January 1, 1994 between the Issuer and The Cincinnati Gas & Electric Company.

"1994 Bonds" means the $48,000,000 County of Boone, Kentucky 5-1/2% Collateralized Pollution Control Revenue Refunding Bonds, 1994 Series A (The Cincinnati Gas & Electric Company Project).

"1994 Indenture" means the Trust Indenture dated as of January 1, 1994 between the Issuer and the 1994 Trustee.

"1994 Trustee" means The Bank of New York Trust Company, N.A..

"2006B Agreement" means this Loan Agreement, as amended or supplemented from time to time.

"2006B Indenture" means the Trust Indenture related to the 2006B Bonds, dated as of the same date as this 2006B Agreement, between the Issuer and the Trustee, as amended or supplemented from time to time.

"2006B Rebate Fund" means the 2006B Rebate Fund created in the 2006B Indenture.

"2006B Agreement" means the Loan Agreement dated as of August 1, 2006 between the Issuer and the Company relating to the 2006B Bonds.

"2006B Bonds" means the Pollution Control Revenue Refunding Bonds, Series 2006B (Duke Energy Kentucky, Inc. Project) issued by the Issuer pursuant to the 2006B Indenture.

"2006B Indenture" means the Trust Indenture dated as of August 1, 2006 between the Issuer and the Trustee relating to the 2006B Bonds.

Section 1.3. Interpretation. Any reference herein to the State, to the Issuer or to any member or officer of either includes entities or officials succeeding to their respective functions, duties or responsibilities pursuant to or by operation of law or lawfully performing their functions.

Any reference to a section or provision of the Constitution of the State or the Act, or to a section, provision or chapter of the Kentucky Revised Statutes, or to any statute of the United States of America, includes that section, provision or chapter as amended, modified, revised, supplemented or superseded from time to time; provided, that no amendment, modification, revision, supplement or superseding section, provision or chapter shall be applicable solely by reason of this provision, if it constitutes in any way an impairment of the rights or obligations of the Issuer, the State, the Holders, the Trustee, the Registrar, the Auction Agent, an Authenticating Agent, a Paying Agent, the Bond Insurer, the Remarketing Agent or the Company under this 2006B Agreement, the 2006B Indenture or the 2006B Bonds.

Unless the context indicates otherwise, words importing the singular number include the plural number, and vice versa; the terms "hereof", "hereby", "herein", "hereto", "hereunder" and similar terms refer to this 2006B Agreement; and the term "hereafter" means after, and the term "heretofore" means before, the date of delivery of the 2006B Bonds. Words of any gender include the correlative words of the other genders, unless the sense indicates otherwise.

Section 1.4. Captions and Headings. The captions and headings in this 2006B Agreement are used solely for convenience of reference and in no way define, limit or describe the scope or intent of any Articles, Sections, subsections, paragraphs or subparagraphs or clauses hereof.

(End of Article I)

ARTICLE II.

REPRESENTATIONS

Section 2.1. Representations of the Issuer. The Issuer represents that: (a) it is a de jure county and a political subdivision of the State duly organized and validly existing under the laws of the State; (b) it has duly accomplished all conditions necessary to be accomplished by it prior to the issuance and delivery of the 2006B Bonds and the execution and delivery of this 2006B Agreement and the 2006B Indenture; (c) it is not in violation of or in conflict with any provisions of the laws of the State which would impair its ability to carry out its obligations contained in this 2006B Agreement or the 2006B Indenture; (d) it is empowered to enter into the transactions contemplated by this 2006B Agreement and the 2006B Indenture; (e) it has duly authorized the execution, delivery and performance of this 2006B Agreement and the 2006B Indenture; (f) it will do all things in its power in order to maintain its existence or assure the assumption of its obligations under this 2006B Agreement and the 2006B Indenture by any successor public body and (g) following reasonable notice, a public hearing was held on July 25, 2006, with respect to the issuance of the 2006B Bonds as required by Section 147 of the Code.

Section 2.2. No Warranty by Issuer of Condition or Suitability of the Project. The Issuer makes no warranty, either express or implied, as to the suitability or utilization of the Project for the Project Purposes, or as to the condition of the Project Facilities or that the Project Facilities are or will be suitable for the Company's purposes or needs.

Section 2.3. Representations and Covenants of the Company. The Company represents that:

(a) The Company has been duly incorporated and is validly existing as a corporation under the laws of the State, with power and authority (corporate and other) to own its properties and conduct its business, to execute and deliver this 2006B Agreement and to perform its obligations under this 2006B Agreement.

(b) This 2006B Agreement has been duly authorized, executed and delivered by the Company and this 2006B Agreement constitutes the valid and legally binding obligations of the Company, enforceable in accordance with their terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(c) The execution, delivery and performance by the Company of this 2006B Agreement and the consummation of the transactions contemplated hereby will not violate any provision of law or regulation applicable to the Company, or of any writ or decree of any court or governmental instrumentality, or of the Restated and Amended Articles of Incorporation, as amended, or the By-laws of the Company, or of any mortgage, indenture, contract, agreement or other undertaking to which the Company is a party or which purports to be binding upon the Company or upon any of its assets.

(d) The Project constitutes Pollution Control Facilities under the Act, is consistent with and will further the purposes of the Act and is located entirely within the State. The Project is being, and the Company will cause the Project to be, operated and maintained in such manner as to be consistent with the Act and to conform to all applicable, if any, zoning, planning, building, environmental and other applicable governmental regulations. All necessary permits, variances and orders remain in full force and effect and have not been withdrawn or otherwise suspended.

(e) The Project is being, and will be, utilized as Pollution Control Facilities under the Act.

(f) It presently intends to use or operate or cause to be used or operated the Project in a manner consistent with the Project Purposes until the date on which the 2006B Bonds have been fully paid and knows of no reason why the Project will not be so operated. The Company does not presently intend to sell or otherwise dispose of the Project or any portion thereof.

(g) Substantially all (at least 90%) of the proceeds of the 1982 Bonds were used to provide air and water pollution control facilities and solid waste disposal facilities within the meaning of Sections 103(b)(4)(E) and (F) of the Internal Revenue Code of 1954, as amended (the "1954 Code"), the original use of which facilities commenced with CG&E and all of the proceeds of the 1982 Bonds have been spent for the 1985 Project or to pay costs of issuance of the 1982 Bonds. The proceeds of the 1985 Bonds (other than any accrued interest thereon) were used exclusively to refund the 1982 Bonds or to pay costs of issuance of the 1985 Bonds. All of the proceeds of the 1985 Bonds were used to retire the 1982 Bonds not later than 90 days after the date of issuance of the 1985 Bonds. The 1982 Bonds were issued prior to August 16, 1986.

(h) Substantially all (at least 90%) of the proceeds of the 1979 DP&L Bonds were used to provide air and water pollution control facilities and solid waste disposal facilities within the meaning of Sections 103(b)(4)(E) and (F) of the 1954 Code, the original use of which facilities commenced with DP&L and all of the proceeds of the 1979 DP&L Bonds have been spent for the 1992/1994 Project or to pay costs of issuance of the 1979 DP&L Bonds. The proceeds of the 1992 Bonds (other than any accrued interest thereon) were used exclusively to refund the 1979 DP&L Bonds and none of the proceeds of the 1992 Bonds were used to pay for any costs of issuance of the 1992 Bonds. All of the proceeds of the 1992 Bonds were used to retire the 1979 DP&L Bonds not later than 90 days after the date of issuance of the 1992 Bonds. The 1979 DP&L Bonds were issued prior to August 16, 1986.

(i) Substantially all (at least 90%) of the proceeds of the 1979 CG&E Bonds were used to provide air and water pollution control facilities and solid waste disposal facilities within the meaning of Sections 103(b)(4)(E) and (F) of the 1954 Code, the original use of which facilities commenced with CG&E and all of the proceeds of the 1979 CG&E Bonds have been spent for the 1992/1994 Project or to pay costs of issuance of the 1979 CG&E Bonds. The proceeds of the 1994 Bonds (other than any accrued interest thereon) were used exclusively to refund the 1979 CG&E Bonds and none of the proceeds of the 1994 Bonds were used to pay for

any costs of issuance of the 1994 Bonds. All of the proceeds of the 1994 Bonds were used to retire the 1979 CG&E Bonds not later than 90 days after the date of issuance of the 1994 Bonds. The 1979 CG&E Bonds were issued prior to August 16, 1986.

(j) The principal amount of the 2006 A Bonds does not exceed the outstanding principal amount of the Refunded Bonds. All of the proceeds of the 2006 A Bonds will be used to retire the Refunded Bonds not later than 90 days after the date of issuance of the 2006 A Bonds.

(k) Either the acquisition and construction of the 1985 Project was not commenced (within the meaning of Treasury Regulations §1.103-8(a)(5)) prior to the adoption of the resolution of the Issuer evidencing the intent of the Issuer to issue the 1982 Bonds, or, any proceeds of the corresponding 1985 Bonds used to pay costs incurred prior to the adoption of such corresponding resolution have been treated for purposes of this Agreement as having been used to provide working capital (not land or depreciable property) to the Company.

(l) Either the acquisition and construction of the 1992/1994 Project was not commenced (within the meaning of Treasury Regulations §1.103-8(a)(5)) prior to the adoption of the resolutions of the Issuer evidencing the intent of the Issuer to issue the 1979 DP&L Bonds and 1979 CG&E Bonds, or, any proceeds of the corresponding 1992 Bonds and 1994 Bonds used to pay costs incurred prior to the adoption of such corresponding resolution have been treated for purposes of this Agreement as having been used to provide working capital (not land or depreciable property) to the Company.

(m) None of the proceeds of the 1982 Bonds, 1985 Bonds, 1979 DP&L Bonds, 1992 Bonds, 1979 CG&E Bonds or 1994 Bonds have been used and none of the proceeds of the 2006 A Bonds or 2006 B Bonds will be used directly or indirectly to acquire land or any interest therein.

(n) No portion of the proceeds of the 1982 Bonds, 1985 Bonds, 1979 DP&L Bonds, 1992 Bonds, 1979 CG&E Bonds or 1994 Bonds has been used and no portion of the proceeds of the 2006 A Bonds or 2006 B Bonds will be used to acquire existing property or any interest therein unless the first use of such property was by the Company (or DP&L or CG&E as the original user of such property) and was pursuant to and followed such acquisition.

(o) On the respective dates of issuance and delivery of the 1982 Bonds, 1985 Bonds, 1979 DP&L Bonds, 1992 Bonds, 1979 CG&E Bonds or 1994 Bonds, DP&L or CG&E as the original user of the property financed reasonably expected that all of the proceeds thereof would be used to carry out the governmental purposes of each such issue within the 3-year period beginning on the date each such issue was issued and none of the proceeds of each such issue, if any, were invested in nonpurpose investments having a substantially guaranteed yield for 3 years or more.

(p) None of the proceeds of the 2006B Bonds will be used to provide working capital or to pay costs of issuance of the 2006B Bonds.

(q) In accordance with Section 147(b) of the Code, the weighted average maturity of the 2006B Bonds does not exceed 120% of the weighted average reasonably expected economic life of the Project Facilities.

(r) None of the proceeds of the 1982 Bonds, 1985 Bonds, 1979 DP&L Bonds, 1992 Bonds, 1979 CG&E Bonds or 1994 Bonds were used, and none of the proceeds of the 2006B Bonds will be used, to provide any airplane; skybox or other private luxury box; health club facility; any facility primarily used for gambling; or any store the principal business of which is the sale of alcoholic beverages for consumption off premises;

(s) The Project has been and will be used wholly to control pollution and dispose of solid waste and were designed for no significant purpose other than pollution control and disposal of solid waste, and the Project was not designed to result in an increase in production or capacity, in a material extension of the useful life of the Generating Station or, in the case of the portions of the Project which are Pollution Control Facilities, in the recovery of by-products of any substantial value.

(t) At no time will any funds constituting gross proceeds of the 2006B Bonds be used in a manner as would constitute failure of compliance with Section 148 of the Code.

(u) The 2006B Bonds are not and will not be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(v) It is not anticipated that as of the date hereof, there will be created any "replacement proceeds", within the meaning of Section 1.148-1(c) of the Treasury Regulations, with respect to the 2006B Bonds; however, in the event that any such replacement proceeds are deemed to have been created, such amounts will be invested in compliance with Section 148 of the Code.

(w) The information furnished by the Company and used by the Issuer in preparing the certification pursuant to Section 148 of the Code and in preparing the information statement pursuant to Section 149(e) of the Code will be accurate and complete as of the date of issuance of the 2006B Bonds; and

(x) The Project Facilities do not include any office except for offices (i) located on the Project Site and (ii) not more than a *de minimis* amount of the functions to be performed at which is not directly related to the day-to-day operations of the Project Facilities.

(y) The Department of Natural Resources and Environmental Protection of Kentucky (now the Natural Resources and Environmental Protection Cabinet of Kentucky), having jurisdiction in the premises, has previously certified that each of the 1985 Project and the 1992/1994 Project, as designed, is in furtherance of the purposes of abating and controlling atmospheric pollutants and contaminants and water pollution.

(End of Article II)

ARTICLE III.

COMPLETION OF THE PROJECT; ISSUANCE OF THE BONDS

Section 3.1. Acquisition, Construction and Installation. The Project was acquired, constructed and installed on the Project Site in accordance with the Project Descriptions and in conformance with all applicable, valid and enforceable (i) zoning, planning, building, environmental and other similar regulations of all governmental authorities having jurisdiction over the Project and (ii) permits, variances and orders issued in respect of the Project. The proceeds derived from the Refunded Bonds, including any investment thereof, were expended in accordance with the Refunded Bonds Indentures and the Refunded Bonds Agreements.

It is understood that the Project is that of the Company and any contracts made by the Company with respect thereto, whether acquisition contracts, installation contracts or otherwise, or any work to be done by the Company on the Project are made or done by the Company on its own behalf and not as agent or contractor for the Issuer.

Section 3.2. Project Descriptions. The Project Descriptions may be changed from time to time by, or with the consent of, the Company provided that any such change shall not adversely affect the exclusion of interest on the 2006B Bonds from gross income for federal income tax purposes.

Section 3.3. Issuance of the 2006B Bonds; Application of Proceeds. To provide funds to make the Loan to the Company to assist the Company in the refunding of the Refunded Bonds, the Issuer will issue, sell and deliver the 2006B Bonds to the Underwriter. The 2006B Bonds will be issued pursuant to the 2006B Indenture in the aggregate principal amount, will bear interest, will mature and will be subject to redemption as set forth therein. The Company hereby approves the terms and conditions of the 2006B Indenture and the 2006B Bonds, and the terms and conditions under which the 2006B Bonds will be issued, sold and delivered. The Company, for the benefit of the Issuer and each Bondholder, shall do and perform all acts and things required or contemplated in the Indenture to be done or performed by the Company.

The proceeds from the sale of the 2006B Bonds (other than any accrued interest) shall be loaned to the Company to assist the Company in refunding the Refunded Bonds and shall be deposited in whole in the 2006B Refunding Fund. On or before September 1, 2006, all moneys on deposit in the 2006B Refunding Fund shall be transferred to and deposited in the bond fund created by the 1994 Indenture and applied by the 1994 Trustee, with other adequate moneys to be furnished by the Company, including proceeds of the 2006A Bonds, to the payment of principal of and interest on the 1994 Bonds on September 1, 2006.

The Company agrees to provide sufficient funds, together with the proceeds of the 2006B Bonds, to pay the redemption price of the Refunded Bonds.

Section 3.4. Disbursements from the 2006B Refunding Fund. Pending disbursement pursuant to Section 5.02 of the 2006B Indenture, the proceeds of the 2006B Bonds so deposited

in the 2006B Refunding Fund, together with any investment earnings thereon, shall constitute a part of the Revenues assigned by the Issuer to the Trustee for the payment of Bond Service Charges. Any accrued interest received from the sale of the 2006B Bonds shall be deposited in the 2006B Bond Fund.

Section 3.5. Investment of Fund Moneys. At the oral (confirmed promptly in writing) or written request of the Company, any moneys held as part of the 2006B Bond Fund, the 2006B Refunding Fund or the 2006B Rebate Fund shall be invested or reinvested by the Trustee in Eligible Investments; provided, that such moneys shall be invested or reinvested by the Trustee only in Eligible Investments which shall mature, or which shall be subject to redemption by the holder thereof at the option of such holder, not later than the date upon which the moneys so invested are needed to make payments from those Funds. The Issuer (to the extent it retained or retains direction or control) and the Company each hereby covenants that it will restrict the investment and reinvestment and the use of the proceeds of the 2006B Bonds in such manner and to such extent, if any, as may be necessary so that the 2006B Bonds will not constitute arbitrage bonds under Section 148 of the Code.

The Company shall provide the Issuer with, and the Issuer may base its certificate and statement, each as authorized by the Bond Ordinance, on a certificate of an appropriate officer, employee or agent of or consultant to the Company for inclusion in the transcript of proceedings for the 2006B Bonds, setting forth the reasonable expectations of the Company on the date of delivery of and payment for the 2006B Bonds regarding the amount and use of the proceeds of the 2006B Bonds and the facts, estimates and circumstances on which those expectations are based.

Section 3.6. 2006B Rebate Fund. To the extent required by Section 5.09 of the 2006B Indenture, within five days after the end of the fifth Bond Year and every fifth Bond Year thereafter, and within five days after payment in full of all outstanding 2006B Bonds, the Company shall calculate the amount of Excess Earnings as of the end of that Bond Year or the date of such payment and shall notify the Trustee of that amount. If the amount then on deposit in the 2006B Rebate Fund created under the 2006B Indenture is less than the amount of Excess Earnings (computed by taking into account the amount or amounts, if any, previously paid to the United States pursuant to Section 5.09 of the 2006B Indenture and this Section), the Company shall, within five days after the date of the aforesaid calculation, pay to the Trustee for deposit in the 2006B Rebate Fund an amount sufficient to cause the 2006B Rebate Fund to contain an amount equal to the Excess Earnings. The obligation of the Company to make such payments shall remain in effect and be binding upon the Company notwithstanding the release and discharge of the 2006B Indenture. The Company shall obtain and keep such records of the computations made pursuant to this Section as are required under Section 148(f) of the Code.

Section 3.7. Agreement as to Ownership of Project. The Issuer agrees that it will not have any interest in, title to or ownership of the Project or the Project Site.

Section 3.8. Use of Project. The Issuer does hereby covenant and agree that it will not take any action, or cause any action to be taken, during the term of this 2006B Agreement, other than pursuant to Article VII of this 2006B Agreement or Article VII of the 2006B Indenture, to interfere with the Company's ownership of the Project or to prevent the Company from having possession, custody, use and enjoyment of the Project, except such action as is requested by the Trustee in enforcing any remedies available to it under this 2006B Agreement or the 2006B Indenture.

(End of Article III)

ARTICLE IV.

LOAN BY ISSUER; LOAN PAYMENTS; ADDITIONAL PAYMENTS

Section 4.1. Loan Repayment. Upon the terms and conditions of this 2006B Agreement, the Issuer agrees to make the Loan to the Company. The proceeds of the Loan shall be deposited with the Trustee pursuant to Section 3.3 hereof. In consideration of and in repayment of the Loan, the Company shall, under all circumstances and without reduction for any reason, make, as Loan Payments, to the Trustee for the account of the Issuer, payments which correspond, as to time, and are equal in amount as of the Loan Payment Date, to the corresponding Bond Service Charges payable on the 2006B Bonds. All Loan Payments received by the Trustee shall be held and disbursed in accordance with the provisions of the 2006B Indenture and this 2006B Agreement for application to the payment of Bond Service Charges.

The Company shall be entitled to a credit against the Loan Payments required to be made on any Loan Payment Date to the extent that the balance of the 2006B Bond Fund is then in excess of amounts required (a) for the payment of 2006B Bonds theretofore matured or theretofore called for redemption, or to be called for redemption pursuant to Section 6.1 hereof (b) for the payment of interest for which checks or drafts have been drawn and mailed by the Trustee or Paying Agent, and (c) to be deposited in the 2006B Bond Fund by the 2006B Indenture for use other than for the payment of Bond Service Charges due on that Loan Payment Date.

The Company's obligation to make Loan Payments shall be reduced to the extent of any payments made by the Bond Insurer to the Trustee in respect of the principal of, premium, if any, or interest on the 2006B Bonds when due pursuant to the Bond Insurance Policy, provided, that the Bond Insurer has been reimbursed for such payments in accordance with the terms of the Insurance Agreement.

Except for such interest of the Company as may hereafter arise pursuant to Section 8.2 hereof or Sections 5.07 or 5.08 of the 2006B Indenture, the Company and the Issuer each acknowledge that neither the Company, the State nor the Issuer has any interest in the 2006B Bond Fund or the 2006B Bond Purchase Fund, and any moneys deposited therein shall be in the custody of and held by the Trustee in trust for the benefit of the Holders.

Section 4.2. Additional Payments. The Company shall pay to the Issuer, as Additional Payments hereunder, any and all reasonable costs and expenses incurred or to be paid by the Issuer in connection with the issuance and delivery of the 2006B Bonds or otherwise related to actions taken by the Issuer under this 2006B Agreement or the 2006B Indenture.

The Company shall pay the Administration Expenses to the Trustee, the Registrar, the Remarketing Agent, the Auction Agent, and any Paying Agent or Authenticating Agent, as appropriate, as Additional Payments hereunder.

The Company may, without creating a default hereunder, contest in good faith the reasonableness of any such cost or expense incurred or to be paid by the Issuer and any Administration Expenses claimed to be due to the Trustee, the Registrar, the Auction Agent, the Remarketing Agent, any Paying Agent or any Authenticating Agent.

In the event the Company should fail to pay any Loan Payments, Additional Payments or Administration Expenses as provided herein when due, the payment in default shall continue as an obligation of the Company until the amount in default shall have been fully paid together with interest thereon during the default period at the Interest Rate for Advances.

Section 4.3. Place of Payments. The Company shall make all Loan Payments directly to the Trustee at its Principal Office. Additional Payments shall be made directly to the person or entity to whom or to which they are due.

Section 4.4. Obligations Unconditional. The obligations of the Company to make Loan Payments, Additional Payments and any payments required of the Company under Section 5.09 of the 2006B Indenture shall be absolute and unconditional, and the Company shall make such payments without abatement, diminution or deduction regardless of any cause or circumstances whatsoever including, without limitation, any defense, set-off, recoupment or counterclaim which the Company may have or assert against the Issuer, the Trustee, the Registrar, the Remarketing Agent, the Auction Agent, the Paying Agent or any other Person.

Section 4.5. Assignment of Revenues and 2006B Agreement. To secure the payment of Bond Service Charges, the Issuer shall, by the 2006B Indenture, (a) absolutely and irrevocably assign to the Trustee, its successors in trust and its and their assigns forever, all of the Issuer's rights and remedies under this 2006B Agreement (except for the Unassigned Issuer Rights), and (b) grant a security interest to the Trustee, its successors in trust and its and their assigns forever, in all of its rights to and interest in the Revenues including, without limitation, all Loan Payments and other amounts receivable by or on behalf of the Issuer under the 2006B Agreement in respect of repayment of the Loan. The Company hereby agrees and consents to those assignments and that grant of a security interest.

Section 4.6. Bond Insurance Policy; Liquidity Facility; Cancellation.

(a) The Company agrees to support the payment of the principal of and interest on the 2006B Bonds by causing the Bond Insurance Policy to be delivered to the Trustee on the date of the delivery of the 2006B Bonds.

(b) The Company may provide for the delivery of a Liquidity Facility.

(c) The Company may cancel any Liquidity Facility then in effect at such time and direct the Trustee in writing to surrender such Liquidity Facility to the Liquidity Facility Issuer by which it was issued in accordance with the 2006B Indenture; provided, that no such cancellation shall become effective and no such surrender shall take place until all 2006B Bonds

subject to purchase pursuant to Section 4.07(d) of the Indenture have been so purchased or redeemed with the proceeds of such Liquidity Facility.

Section 4.7. Company's Option to Elect Rate Period; Changes in Auction Date and Length of Auction Periods. The Company shall have, and is hereby granted, the option to elect to convert on any Conversion Date the interest rate borne by the 2006B Bonds to another Variable Rate or to return to the Auction Rate, to be effective for a Rate Period pursuant to the provisions of Article II of the 2006B Indenture and subject to the terms and conditions set forth therein. The Company shall also have the option to direct the change of Auction Dates and/or the length of Auction Rate Periods (as such terms are defined in the 2006B Indenture) in accordance with the 2006B Indenture. To exercise such options, the Company shall give the written notice required by the 2006B Indenture.

Section 4.8. Company's Obligation to Purchase 2006B Bonds. The Company hereby agrees to pay or cause to be paid to the Trustee or the Paying Agent, on or before each day on which 2006B Bonds may be or are required to be tendered for purchase, amounts equal to the amounts to be paid by the Trustee or the Paying Agent with respect to the 2006B Bonds tendered for purchase on such dates pursuant to Article IV of the 2006B Indenture; provided, however, that the obligation of the Company to make any such payment under this Section shall be reduced by the amount of (A) moneys paid by the Remarketing Agent as proceeds of the remarketing of such 2006B Bonds by the Remarketing Agent, (B) moneys drawn under a Liquidity Facility, if any, for the purpose of paying such purchase price and (C) other moneys made available by the Company, as set forth in Section 4.08(b)(ii) of the 2006B Indenture.

(End of Article IV)

ARTICLE V.

ADDITIONAL AGREEMENTS AND COVENANTS

Section 5.1. Right of Inspection. The Company agrees that, subject to reasonable security and safety regulations and to reasonable requirements as to notice, the Issuer and the Trustee and their or any of their respective duly authorized agents shall have the right at all reasonable times to enter upon the Project Site to examine and inspect the Project.

Section 5.2. Maintenance. The Company shall use its best efforts to keep and maintain the Project Facilities, including all appurtenances thereto and any personal property therein or thereon, in good repair and good operating condition so that the Project Facilities will continue to constitute Pollution Control Facilities for the purposes of the operation thereof as required by Section 5.4 hereof.

So long as such shall not be in violation of the Act or impair the character of the Project Facilities as Pollution Control Facilities and provided there is continued compliance with applicable laws and regulations of governmental entities having jurisdiction thereof, the Company shall have the right to remodel the Project Facilities or make additions, modifications and improvements thereto, from time to time as it, in its discretion, may deem to be desirable for its uses and purposes, the cost of which remodeling, additions, modifications and improvements shall be paid by the Company and the same shall, when made, become a part of the Project Facilities.

Section 5.3. Removal of Portions of the Project Facilities. The Company shall not be under any obligation to renew, repair or replace any inadequate, obsolete, worn out, unsuitable, undesirable or unnecessary portions of the Project Facilities, except that, subject to Section 5.4 hereof, it will use its best efforts to ensure the continued character of the Project Facilities as Pollution Control Facilities. The Company shall have the right from time to time to substitute personal property or fixtures for any portions of the Project Facilities, provided that the personal property or fixtures so substituted shall not impair the character of the Project Facilities as Pollution Control Facilities. Any such substituted property or fixtures shall, when so substituted, become a part of the Project Facilities. The Company shall also have the right to remove any portion of the Project Facilities, without substitution therefor; provided, that the Company shall deliver to the Trustee a certificate signed by an Engineer describing said portion of the Project Facilities and stating that the removal of such property or fixtures will not impair the character of the Project Facilities as Pollution Control Facilities.

Section 5.4. Operation of Project Facilities. The Company will, subject to its obligations and rights to maintain, repair or remove portions of the Project Facilities, as provided in Sections 5.2 and 5.3 hereof, use its best efforts to continue operation of the Project Facilities so long as and to the extent that operation thereof is required to comply with laws or regulations of governmental entities having jurisdiction thereof or unless the Issuer shall have approved the discontinuance of such operation (which approval shall not be unreasonably withheld). The

Company agrees that it will, within the design capacities thereof, use its best efforts to operate and maintain the Project Facilities in accordance with all applicable, valid and enforceable rules and regulations of governmental entities having jurisdiction thereof; provided, that the Company reserves the right to contest in good faith any such laws or regulations.

Nothing in this 2006B Agreement shall prevent or restrict the Company, in its sole discretion, at any time, from discontinuing or suspending either permanently or temporarily its use of any facility of the Company served by the Project Facilities and in the event such discontinuance or suspension shall render unnecessary the continued operation of the Project Facilities, the Company shall have the right to discontinue the operation of the Project Facilities during the period of any such discontinuance or suspension.

Section 5.5. Insurance. The Company shall cause the Project Facilities to be kept insured against fire or other casualty to the extent that property of similar character is usually so insured by companies similarly situated and operating like properties (including self-insurance and self-insured retentions or deductibles generally consistent with industry practice), to a reasonable amount by reputable insurance companies or, in lieu of or supplementing such insurance in whole or in part, adopt some other method or plan of protection against loss by fire or other casualty at least equal in protection to the method or plan of protection against loss by fire or other casualty of companies similarly situated and operating properties subject to similar or greater fire or other hazards or on which properties an equal or higher primary fire or other casualty insurance rate has been set by reputable insurance companies.

Section 5.6. Workers' Compensation Coverage. Throughout the term of this 2006B Agreement, the Company shall comply, or cause compliance, with applicable workers' compensation laws of the State.

Section 5.7. Damage; Destruction and Eminent Domain. If, during the term of this 2006B Agreement, the Project Facilities or any portion thereof is destroyed or damaged in whole or in part by fire or other casualty, or title to, or the temporary use of, the Project Facilities or any portion thereof shall have been taken by the exercise of the power of eminent domain, the Company (unless it shall have exercised its option to prepay the Loan Payments pursuant to Section 6.2 hereof) shall promptly repair, rebuild or restore the portion of the Project Facilities so damaged, destroyed or taken with such changes, alterations and modifications (including the substitution and addition of other property) as may be necessary or desirable for the administration and operation of the Project Facilities as Pollution Control Facilities and as shall not impair the character or significance of the Project Facilities as furthering the purposes of the Act.

Section 5.8. Company to Maintain its Existence; Conditions Under Which Exceptions Permitted. The Company agrees that, during the term of this 2006B Agreement, it will maintain its existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or other entity or permit one or more other corporations or entities to consolidate with or merge into it; provided that the Company

may, without violating its agreement contained in this Section, consolidate with or merge into another corporation or other entity, or permit one or more other entities to consolidate with or merge into it, or sell or otherwise transfer to another entity all or substantially all of its assets as an entirety and thereafter dissolve, provided the surviving, resulting or transferee entity, as the case may be (if other than the Company), is a corporation or other entity organized and existing under the laws of one of the states of the United States, and assumes in writing all of the obligations of the Company herein, and, if not a organized under the laws of Kentucky, is qualified to do business in the State.

If consolidation, merger or sale or other transfer is made as provided in this Section, the provisions of this Section shall continue in full force and effect and no further consolidation, merger or sale or other transfer shall be made except in compliance with the provisions of this Section.

Section 5.9. Indemnification.

(a) The Company releases the Issuer from, agrees that the Issuer, the Trustee and the State shall not be liable for, and shall indemnify, defend and hold harmless the Issuer and the State from and against all liabilities, claims, costs, loss, penalty, tax and expenses, including attorneys fees and expenses of any nature imposed upon, incurred or asserted against the Issuer, the Trustee and the State on account of: (i) the acceptance or administration of the 2006B Indenture by the Trustee or the performance of the Issuer's duties thereunder, except with respect to liability from such Trustee's gross negligence or willful misconduct in connection with such action taken; (ii) any loss or damage to property or injury to or death of or loss by any person that may be occasioned by any cause whatsoever pertaining to the acquisition, construction, equipping, installation, maintenance, operation or use, non-use, condition or occupancy of the Project or a part thereof; (iii) any breach or default on the part of the Company in the performance of any covenant or agreement of the Company under this 2006B Agreement, the Bond Purchase Agreement or any contract or other document related to the Project or a part thereof, or arising from any act or failure to act or misrepresentation by the Company, or any of the Company's agents, contractors, servants, employees or licensees; (iv) violation of any law, ordinance, or regulation arising out of the ownership, occupancy, or use of the Project or a part thereof; (v) undertaking the Project or the failure to undertake the Project; (vi) any act, omitted act, or misrepresentation by the Issuer in connection with or in the performance of any obligation related to the issuance, sale, or delivery of (or failure to issue, sell, or deliver) the 2006B Bonds under this 2006B Agreement or the 2006B Indenture, or any other agreement executed by or on behalf of the Issuer (provided that nothing in this clause should be construed to indemnify or release the Issuer from any liability which it would otherwise have had arising from the intentional misrepresentation or willful misconduct on the part of the Issuer); (vii) the authorization, issuance, failure to issue, sale, remarketing, trading, redemption or servicing of the 2006B Bonds, and the provision of any information or certification furnished in connection therewith concerning the 2006B Bonds, the Project or the Company including, without limitation, the Official Statement (as defined in the Bond Purchase Agreement), any information furnished by the Company for, and included in, or used as a basis for preparation of, any

certifications, information statements or reports furnished by the Issuer (including, without limitation, IRS Form 8038), and any other information or certification obtained from the Company to assure the exclusion of the interest on the 2006B Bonds from gross income of the holders thereof for federal income tax purposes; (viii) the Company's failure to comply with, any requirement of this 2006B Agreement or the Code pertaining to such exclusion of that interest, including the covenants in Section 5.10 hereof and in the Tax Certificate; and (ix) any claim, action or proceeding brought with respect to the matters set forth in (i), (ii), (iii), (iv), (v), (vi), (vii) or (viii) above, except as limited or excluded based upon gross negligence, willful misconduct or intentional misrepresentation.

The Company agrees to indemnify the Trustee for, and to hold it harmless against, all liabilities, claims, and reasonable costs and expenses, including counsel fees and expenses, incurred without gross negligence or willful misconduct on the part of the Trustee on account of any action taken or omitted to be taken by the Trustee in accordance with the terms of this 2006B Agreement, the 2006B Bonds or the 2006B Indenture, or any action taken at the request of or with the consent of the Company, including the reasonable costs and expenses of the Trustee in defending itself against any such claim, action or proceeding brought in connection with the exercise or performance of any of its powers or duties under this 2006B Agreement, the 2006B Bonds or the 2006B Indenture.

In case any action or proceeding is brought against the Issuer or the Trustee in respect of which indemnity may be sought hereunder, the party seeking indemnity promptly shall give notice of that action or proceeding to the Company, and the Company upon receipt of that notice shall have the obligation and the right to assume the defense of the action or proceeding; provided, that failure of a party to give that notice shall not relieve the Company from any of the Company's obligations under this Section unless that failure materially prejudices the defense of the action or proceeding by the Company. An indemnified party at its own expense may employ separate counsel and participate in the defense, unless (i) the Company and the indemnified party shall have mutually agreed to the retention of such counsel, or (ii) the named parties to any such proceeding (including any impleaded parties) include both the Company and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. The Company shall not be liable for any settlement made without the Company's consent.

The release and indemnification by the Company set forth above is intended to and shall include the release and indemnification of all affected officials, directors, members, officers, employees, attorneys, agents, successors and assigns of the Issuer and the Trustee, respectively, past, present or future. Each release and/or indemnification is intended to and shall be enforceable by the Issuer and the Trustee, respectively, to the full extent permitted by law.

(b) Notwithstanding the foregoing, the Company shall be entitled to pursue its remedies against the Issuer for damages to the Company resulting directly from personal injury or property damage caused by the gross negligence or willful misconduct of the Issuer.

(c) No covenant or agreement contained in the 2006B Bonds or this 2006B Agreement shall be deemed to be a covenant or agreement of any member of the Issuer or of any officer or employee of the Issuer in his or her individual capacity, and neither the Issuer nor any officer or employee of the Issuer executing the 2006B Bonds shall be liable personally on the 2006B Bonds or be subject to any personal liability or accountability by reason of the issuance of the 2006B Bonds.

(d) The indemnity set forth herein shall be in addition to any other obligations of the Company to the holder or amounts due hereunder to the Issuer or at common law or otherwise, and shall survive any termination of this 2006B Agreement, the resignation or removal of the Trustee and the payment of all obligations hereunder.

Section 5.10. Company Not to Adversely Affect Exclusion of Interest on 2006B Bonds From Gross Income For Federal Income Tax Purposes. The Company hereby covenants and represents that it has taken and caused to be taken and shall take and cause to be taken all actions that may be required of it for the interest on the 2006B Bonds to be and remain excluded from the gross income of the Holders for federal income tax purposes, and that it has not taken or permitted to be taken on its behalf, and covenants that it will not take, or permit to be taken on its behalf, any action which, if taken, would adversely affect that exclusion under the provisions of the Code.

Section 5.11. Ownership of Project; Use of Project. The Issuer agrees that it does not have and shall not have any interest in, title to or ownership of the Project or the Project Site. The Issuer does hereby covenant and agree that it will not take any action, or cause any action to be taken on its behalf, during the term of this 2006B Agreement, other than pursuant to Article VII of this 2006B Agreement or Article VII of the 2006B Indenture, to interfere with the Company's ownership interest in the Project or to prevent the Company from having possession, custody, use and enjoyment of the Project, except such action as is requested by the Trustee in enforcing any remedies available to it under this 2006B Agreement or the 2006B Indenture.

Section 5.12. Assignment by Company. Notwithstanding any other provision of this 2006B Agreement, this 2006B Agreement may be assigned in whole or in part by the Company and the Project may be sold or conveyed by the Company without the necessity of obtaining the consent of either the Issuer or the Trustee and after providing written notice to the Issuer but, subject, however, to each of the following conditions:

(a) The Company must provide the Trustee and the Remarketing Agent with an Opinion of Bond Counsel that such action will not affect the exclusion of interest on the 2006B Bonds for federal income tax purposes.

(b) The Company shall, within 30 days after execution thereof, furnish or cause to be furnished to the Issuer and the Trustee a true and complete copy of each such assignment together with any instrument of assumption.

(c) Any assignment from the Company shall not materially impair fulfillment of the Project Purposes to be accomplished by operation of the Project as herein provided.

(End of Article V)

ARTICLE VI.

REDEMPTION

Section 6.1. Optional Redemption. Provided no Event of Default shall have occurred and be subsisting, at any time and from time to time, the Company may deliver moneys to the Trustee in addition to Loan Payments or Additional Payments required to be made and direct the Trustee to use the moneys so delivered for the purpose of calling 2006B Bonds for optional redemption in accordance with the applicable provisions of the 2006B Indenture providing for optional redemption at the redemption price stated in the 2006B Indenture. Pending application for those purposes, any moneys so delivered shall be held by the Trustee in a special account in the 2006B Bond Fund and delivery of those moneys shall not, except as set forth in Section 4.1 hereof, operate to abate or postpone Loan Payments or Additional Payments otherwise becoming due or to alter or suspend any other obligations of the Company under this 2006B Agreement.

Section 6.2. Extraordinary Optional Redemption. The Company shall have, subject to the conditions hereinafter imposed, the option during a Term Rate Period to direct the redemption of the 2006B Bonds in whole upon the occurrence of the event described below in paragraph (c) and in part upon the occurrence of the other events described below in accordance with the applicable provisions of the 2006B Indenture.

(a) The Project Facilities or the Generating Station shall have been damaged or destroyed to such an extent that (1) the Project Facilities or the Generating Station cannot reasonably be expected to be restored, within a period of six consecutive months, to the condition thereof immediately preceding such damage or destruction or (2) the Company is reasonably expected to be prevented from carrying on its normal use and operation of the Project Facilities or the Generating Station for a period of six consecutive months.

(b) Title to, or the temporary use of, all or a significant part of the Project Facilities or the Generating Station shall have been taken under the exercise of the power of eminent domain to such an extent that (1) the Project Facilities or the Generating Station cannot reasonably be expected to be restored within a period of six consecutive months to a condition of usefulness comparable to that existing prior to the taking or (2) the Company is reasonably expected to be prevented from carrying on its normal use and operation of the Project Facilities or the Generating Station for a period of six consecutive months.

(c) As a result of any changes in the Constitution of the State, the Constitution of the United States of America or any state or federal laws or as a result of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after any contest thereof by the Issuer or the Company in good faith, this 2006B Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed in this Agreement.

(d) Unreasonable burdens or excessive liabilities shall have been imposed upon the Issuer or the Company with respect to the Project Facilities or the Generating Station or the operation thereof, including, without limitation, the imposition of federal, state or other ad valorem, property, income or other taxes other than ad valorem taxes at the rates presently levied upon privately owned property used for the same general purpose as the Project Facilities or the Generating Station.

(e) Changes in the economic availability of raw materials, operating supplies, energy sources or supplies or facilities (including, but not limited to, facilities in connection with the disposal of industrial wastes) necessary for the operation of the Project Facilities or the Generating Station for the Project Purposes occur or technological or other changes occur which the Company cannot reasonably overcome or control and which in the Company's reasonable judgment render the Project Facilities or the Generating Station uneconomic or obsolete for the Project Purposes.

(f) Any court or administrative body shall enter a judgment, order or decree, or shall take administrative action, requiring the Company to cease all or any substantial part of its operations served by the Project Facilities or the Generating Station to such extent that the Company is or will be prevented from carrying on its normal operations at the Project Facilities or the Generating Station for a period of six consecutive months.

(g) The termination by the Company of operations at the Generating Station.

The amount payable by the Company in the event of its exercise of the option granted in this Section shall be the sum of the following:

(i) An amount of money which, when added to the moneys and investments held to the credit of the 2006B Bond Fund, will be sufficient pursuant to the provisions of the 2006B Indenture to pay, at 100% of the principal amount thereof plus accrued interest to the redemption date, and discharge, all or such portion of Outstanding Bonds to be redeemed on the earliest applicable redemption date, that amount to be paid to the Trustee, plus

(ii) An amount of money equal to the Additional Payments relating to those 2006B Bonds accrued and to accrue until actual final payment and redemption of those 2006B Bonds, that amount or applicable portions thereof to be paid to the Trustee or to the Persons to whom those Additional Payments are or will be due.

The requirement of (ii) above with respect to Additional Payments to accrue may be met if provisions satisfactory to the Trustee and the Issuer are made for paying those amounts as they accrue.

The rights and options granted to the Company in this Section may be exercised whether or not the Company is in default hereunder; provided, that such default will not relieve the Company from performing those actions which are necessary to exercise any such right or option granted hereunder.

Section 6.3. Mandatory Redemption. The Company shall deliver to the Trustee the moneys needed to redeem the 2006B Bonds in accordance with any mandatory redemption provisions relating thereto as may be set forth in Section 4.01(b) of the 2006B Indenture.

Section 6.4. Notice of Redemption. In order to exercise an option granted in, or to consummate a redemption required by, this Article VI, the Company shall, within 180 days following the event authorizing the exercise of such option, or at any time during the continuation of the condition referred to in paragraphs (c), (d) or (e) of Section 6.2 hereof, or at any time that optional redemption of the 2006B Bonds is permitted under the 2006B Indenture as provided in Section 6.1 hereof, or promptly upon the occurrence of a Determination of Taxability, give written notice to the Issuer and the Trustee that it is exercising its option to direct the redemption of 2006B Bonds, or that the redemption thereof is required by Section 4.01(b) of the 2006B Indenture due to the occurrence of a Determination of Taxability, as the case may be, in accordance with the 2006B Agreement and the 2006B Indenture, and shall specify therein the date on which such redemption is to be made, which date shall not be more than 180 days from the date such notice is mailed. The Company shall make arrangements satisfactory to the Trustee for the giving of the required notice of redemption to the Holders of the 2006B Bonds, in which arrangements the Issuer shall cooperate.

Section 6.5. Actions by Issuer. Subject to Section 4.2 hereof, at the request of the Company or the Trustee, the Issuer shall take all steps required of it under the applicable provisions of the 2006B Indenture or the 2006B Bonds to effect the redemption of all or a portion of the 2006B Bonds pursuant to this Article VI.

(End of Article VI)

ARTICLE VII.

EVENTS OF DEFAULT AND REMEDIES

Section 7.1. Events of Default. Each of the following shall be an Event of Default:

(a) The occurrence of an event of default as defined in Section 7.01 (a), (b), (c) or (d) of the 2006B Indenture;

(b) The Company shall fail to observe and perform any other agreement, term or condition contained in this 2006B Agreement, other than such failure as will have resulted in an event of default described in (a) above and the continuation of that failure for a period of 90 days after notice thereof shall have been given to the Company by the Issuer or the Trustee, or for such longer period as the Issuer and the Trustee may agree to in writing; provided, that failure shall not constitute an Event of Default so long as the Company institutes curative action within the applicable period and diligently pursues that action to completion within 150 days after the expiration of initial cure period as determined above, or within such longer period as the Issuer and the Trustee may agree to in writing;

(c) The receipt by the Trustee of written notice from the Bond Insurer that an event of default has occurred and is continuing under the Insurance Agreement;

(d) By decree of a court of competent jurisdiction the Company shall be adjudicated a bankrupt, or an order shall be made approving a petition or answer filed seeking reorganization or readjustment of the Company under the federal bankruptcy laws or other law or statute of the United States of America or of the state of incorporation of the Company or of any other state, or, by order of such a court, a trustee in bankruptcy, a receiver or receivers shall be appointed of all or substantially all of the property of the Company, and any such decree or order shall have continued unstayed on appeal or otherwise and in effect for a period of sixty (60) days; and

(e) The Company shall file a petition in voluntary bankruptcy or shall make an assignment for the benefit of creditors or shall consent to the appointment of a receiver or receivers of all or any part of its property, or shall file a petition seeking reorganization or readjustment under the Federal bankruptcy laws or other law or statute of the United States of America or any state thereof, or shall file a petition to take advantage of any debtors' act.

Notwithstanding the foregoing, if, by reason of Force Majeure, the Company is unable to perform or observe any agreement, term or condition hereof which would give rise to an Event of Default under subsection (b) hereof, the Company shall not be deemed in default during the continuance of such inability. However, the Company shall promptly give notice to the Trustee and the Issuer of the existence of an event of Force Majeure and shall use its best efforts to remove the effects thereof; provided that the settlement of strikes or other industrial disturbances shall be entirely within its discretion.

The exercise of remedies hereunder shall be subject to any applicable limitations of federal bankruptcy law affecting or precluding that declaration or exercise during the pendency of or immediately following any bankruptcy, liquidation or reorganization proceedings.

Section 7.2. Remedies on Default. Whenever an Event of Default shall have happened and be subsisting, either or both of the following remedial steps may be taken:

(a) The Issuer or the Trustee may have access to, inspect, examine and make copies of the books, records, accounts and financial data of the Company, only, however, insofar as they pertain to the Project; or

(b) The Issuer or the Trustee may pursue all remedies now or hereafter existing at law or in equity to recover all amounts, including all Loan Payments and Additional Payments and under Section 4.8 hereof the purchase price of 2006B Bonds tendered for purchase, then due and thereafter to become due under this 2006B Agreement, or to enforce the performance and observance of any other obligation or agreement of the Company under this 2006B Agreement.

Notwithstanding the foregoing, the Issuer shall not be obligated to take any step which in its opinion will or might cause it to expend time or money or otherwise incur liability unless and until a satisfactory indemnity bond has been furnished to the Issuer at no cost or expense to the Issuer. Any amounts collected as Loan Payments or applicable to Loan Payments and any other amounts which would be applicable to payment of Bond Service Charges collected pursuant to action taken under this Section shall be paid into the 2006B Bond Fund and applied in accordance with the provisions of the 2006B Indenture or, if the outstanding 2006B Bonds have been paid and discharged in accordance with the provisions of the 2006B Indenture, shall be paid as provided in Section 5.08 of the 2006B Indenture for transfers of remaining amounts in the 2006B Bond Fund.

The provisions of this Section are subject to the further limitation that the rescission and annulment by the Trustee of its declaration that all of the 2006B Bonds are immediately due and payable also shall constitute a rescission and annulment of any corresponding declaration made pursuant to this Section and a rescission and annulment of the consequences of that declaration and of the Event of Default with respect to which that declaration has been made, provided that no such rescission and annulment shall extend to or affect any subsequent or other default or impair any right consequent thereon.

Section 7.3. No Remedy Exclusive. No remedy conferred upon or reserved to the Issuer or the Trustee by this 2006B Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this 2006B Agreement, or now or hereafter existing at law, in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair that right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer or the Trustee to exercise any remedy reserved to it in this Article, it

shall not be necessary to give any notice, other than any notice required by law or for which express provision is made herein.

Section 7.4. Agreement to Pay Attorneys' Fees and Expenses. If an Event of Default should occur and the Issuer or the Trustee should incur expenses, including attorneys' fees, in connection with the enforcement of this 2006B Agreement or the collection of sums due hereunder, the Company shall be required, to the extent permitted by law, to reimburse the Issuer and the Trustee, as applicable, for the expenses so incurred upon demand.

Section 7.5. No Waiver. No failure by the Issuer or the Trustee to insist upon the strict performance by the Company of any provision hereof shall constitute a waiver of their right to strict performance and no express waiver shall be deemed to apply to any other existing or subsequent right to remedy the failure by the Company to observe or comply with any provision hereof.

Section 7.6. Notice of Default. The Company shall notify the Trustee, the Issuer and the Bond Insurer immediately if it becomes aware of the occurrence of any Event of Default hereunder or of any fact, condition or event which, with the giving of notice or passage of time or both, would become an Event of Default.

(End of Article VII)

ARTICLE VIII.

MISCELLANEOUS

Section 8.1. Term of Agreement. This 2006B Agreement shall be and remain in full force and effect from the date of delivery of the 2006B Bonds to the Underwriter until such time as (i) all of the 2006B Bonds shall have been fully paid (or provision made for such payment) and the Indenture has been released pursuant to Section 9.01 thereof and (ii) all other sums payable by the Company under this 2006B Agreement shall have been paid; provided, however, the obligations of the Company under Sections 4.2 and 5.9 hereof shall survive any termination of this 2006B Agreement.

Section 8.2. Amounts Remaining in Funds. Any amounts in the 2006B Bond Fund remaining unclaimed by the Holders of 2006B Bonds for four years after the due date thereof (whether at stated maturity, by redemption, upon acceleration or otherwise), at the option of the Company, shall be deemed to belong to and shall be paid, subject to Section 5.07 of the 2006B Indenture, at the written request of the Company, to the Company by the Trustee. With respect to that principal of and any premium and interest on the 2006B Bonds to be paid from moneys paid to the Company pursuant to the preceding sentence, the Holders of the 2006B Bonds entitled to those moneys shall look solely to the Company for the payment of those moneys. Further, any amounts remaining in the 2006B Bond Fund and any other special funds or accounts created under this 2006B Agreement or the 2006B Indenture, except the 2006B Rebate Fund, after all of the 2006B Bonds shall be deemed to have been paid and discharged under the provisions of the 2006B Indenture and all other amounts required to be paid under this 2006B Agreement and the 2006B Indenture have been paid, shall be paid to the Company to the extent that those moneys are in excess of the amounts necessary to effect the payment and discharge of the Outstanding Bonds.

Section 8.3. Notices. All notices, certificates, requests or other communications hereunder shall be in writing, except as provided in Section 3.4 hereof, and shall be deemed to be sufficiently given when mailed by registered or certified mail, postage prepaid, and addressed to the appropriate Notice Address. A duplicate copy of each notice, certificate, request or other communication given hereunder to the Issuer, the Company, the Trustee or the Bond Insurer shall also be given to the others. The Company, the Issuer, the Trustee or the Bond Insurer, by notice given hereunder, may designate any further or different addresses to which subsequent notices, certificates, requests or other communications shall be sent.

Section 8.4. Extent of Covenants of the Issuer; No Personal Liability. All covenants, obligations and agreements of the Issuer contained in this 2006B Agreement or the 2006B Indenture shall be effective to the extent authorized and permitted by applicable law. No such covenant, obligation or agreement shall be deemed to be a covenant, obligation or agreement of any present or future member, officer, agent or employee of the Issuer in other than his official capacity, and neither the members of the Issuer nor any official executing the 2006B Bonds shall be liable personally on the 2006B Bonds or be subject to any personal liability or accountability

by reason of the issuance thereof or by reason of the covenants, obligations or agreements of the Issuer contained in this 2006B Agreement or in the 2006B Indenture.

Section 8.5. Binding Effect. This 2006B Agreement shall inure to the benefit of and shall be binding in accordance with its terms upon the Issuer, the Company and their respective permitted successors and assigns provided that this 2006B Agreement may not be assigned by the Company (except as permitted under Sections 5.8 or 5.12 hereof) and may not be assigned by the Issuer except to (i) the Trustee pursuant to the 2006B Indenture or as otherwise may be necessary to enforce or secure payment of Bond Service Charges or (ii) any successor public body to the Issuer.

Section 8.6. Amendments and Supplements. Except as otherwise expressly provided in this 2006B Agreement or the 2006B Indenture, subsequent to the issuance of the 2006B Bonds and prior to all conditions provided for in the 2006B Indenture for release of the 2006B Indenture having been met, this 2006B Agreement may not be effectively amended, changed, modified, altered or terminated by the parties hereto except with the consents required by, and in accordance with, the provisions of Article XI of the 2006B Indenture, as applicable.

Section 8.7. Continuing Disclosure. The Issuer hereby acknowledges the entry by the Company into the Continuing Disclosure Agreement under which the Company has assumed certain obligations for the benefit of the Holders of the 2006B Bonds. The Company agrees to perform its obligations under the Continuing Disclosure Agreement. The Company acknowledges and agrees that the Issuer is not an "obligated person" (as defined in the Continuing Disclosure Agreement) with respect to the 2006B Bonds and represents that the Company is the only obligated person with respect to the 2006B Bonds. Notwithstanding any other provision of this 2006B Agreement, any failure by the Company to comply with any provision of the Continuing Disclosure Agreement shall not be a failure or a default, or an Event of Default, under this 2006B Agreement or the 2006B Indenture.

Section 8.8. Execution Counterparts. This 2006B Agreement may be executed in any number of counterparts, each of which shall be regarded as an original and all of which shall constitute but one and the same instrument.

Section 8.9. Severability. If any provision of this 2006B Agreement, or any covenant, obligation or agreement contained herein is determined by a judicial or administrative authority to be invalid or unenforceable, that determination shall not affect any other provision, covenant, obligation or agreement, each of which shall be construed and enforced as if the invalid or unenforceable portion were not contained herein. That invalidity or unenforceability shall not affect any valid and enforceable application thereof, and each such provision, covenant, obligation or agreement shall be deemed to be effective, operative, made, entered into or taken in the manner and to the full extent permitted by law.

Section 8.10. Governing Law. This 2006B Agreement shall be deemed to be a contract made under the laws of the State and for all purposes shall be governed by and construed in accordance with the laws of the State.

(End of Article VIII)

IN WITNESS WHEREOF, the Issuer and the Company have caused this 2006B Agreement to be duly executed in their respective names, all as of the date hereinbefore written.

COUNTY OF BOONE, KENTUCKY

By: Gary W. Moore
Name:
Title:

Attest:

Louis Kelly, Fiscal Court Clerk

UNION LIGHT, HEAT AND POWER COMPANY (doing business as DUKE ENERGY KENTUCKY, INC.)

By: _____

EXHIBIT A

1985 PROJECT

EXHIBIT A

PROJECT DESCRIPTION

EAST BEND STATION
POLLUTION CONTROL FACILITIES

The Pollution Control Facilities are designed to control the emission of particulates and sulfur dioxide to the atmosphere and various pollutants to the Ohio River.

(1) Electrostatic Precipitator System

The electrostatic precipitator system will control the release of fly ash and includes the construction and installation of a precipitator and related ductwork and foundation.

(2) Flue Gas Desulfurization System

The Flue Gas Desulfurization System is designed to control sulfur dioxide present in flue gases. Flue gases will be transmitted from the precipitators to the scrubber, where they will be reacted with a liquified calcium hydroxide solution utilized in the scrubbing process as a reactive agent. Sulphur dioxide contained in flue gases undergoes chemical reaction upon contact with calcium hydroxide, with resultant formation of noncommercial calcium sulfite and calcium sulfate sludges. The sulphur dioxide scrubber is designed to remove 87% of airborne sulphur dioxide and will also remove a portion of any particulate matter remaining after electrostatic precipitation, before emission of the cleansed gases to the atmosphere. The sulphur dioxide scrubber system will be composed of the scrubber itself, associated ductwork, structural supports and piping, electric elements, reactive tanks for holding the reactive agents, surge tanks, vacuum system and recycling and thickening tanks from which the resulting calcium sulfite and calcium sulfate is dewatered and withdrawn for final disposal. There will also be acquired and installed certain functionally related facilities to prepare reactant materials for use in scrubbers, together with pumps, mixers and holding tanks and conveyors and other transport mechanisms situated at or near reactant reception facilities in close proximity to the generating station for the receipt of reactants and transmission thereof to storage facilities or directly to the sulphur dioxide removal system.

(3) Wastewater Disposal Facilities

The Wastewater Disposal System includes facilities for the collection, transportation and disposal of wastewater from the boiler room (including sumps, pumps and piping) and a sewage treatment plant with a capacity of 10,000 gallons per day. Wastewater collected from the boiler room will be treated by sedimentation for settleable solids removal, neutralization and oil removal. Sanitary wastes from the Station are treated at the sewage treatment plant to remove settleable solids and biological oxygen demand, chlorinated and discharged to the ash basin.

EXHIBIT B

1992/1994 PROJECT

EXHIBIT A

TO

LOAN AGREEMENT

DATED AS OF OCTOBER 1, 1979

BETWEEN

THE COUNTY OF BOONE, KENTUCKY, AND
THE DAYTON POWER AND LIGHT COMPANY

PART I

THE PROJECT

Facilities to be Acquired, Constructed and Installed at the East Bend Generating Station, Unit 2, and financed in part (49%) by Application of the Proceeds of the 1979 Series A Bonds in Accordance with this Agreement and the Indenture

---

EAST BEND GENERATING STATION
UNIT 2

ELECTROSTATIC PRECIPITATORS

Electrostatic precipitators will be installed to serve Unit 2 of the East Bend Generating Station. Unit 2 of the East Bend Generating Station is a new coal-fired steam electric generating unit, and the precipitators are and will be installed simultaneously with construction and installation of the generating unit itself. The electrostatic precipitators, together with functionally related and associated structural supports and ductwork are solely designed and intended to reduce particulate loading of flue gases by removal of flyash and particulates from flue gases exiting the Unit 2 steam boiler. The precipitators are designed to remove 99.6% of particulate emissions and flyash when the steam boiler is being operated. The precipitators operate upon the principle of creation of an electromagnetic field which attracts and captures particulate

matter (flyash) from the flue gases. The flyash is then removed and conveyed to silos. Thereafter, the flyash is conveyed by pneumatic systems to a sludge and flyash processing facility or to an ash pond for ultimate disposal.

SULPHUR DIOXIDE REMOVAL SYSTEM

A complete sulphur dioxide removal system (scrubber) will be provided for the East Bend Generating Station, Unit 2. Following electrostatic precipitation, flue gases will be transmitted from the precipitators to the scrubber, where they will be reacted with a liquified calcium hydroxide solution utilized in the scrubbing process as a reactive agent. Sulphur dioxide contained in flue gases undergoes chemical reaction upon contact with calcium hydroxide, with resultant formation of non-commercial calcium sulfite and calcium sulfate sludges. The sulphur dioxide scrubber is designed to remove 87% of airborne sulphur dioxide and will also remove a portion of any particulate matter remaining after electrostatic precipitation, before emission of the cleansed gases to the atmosphere. The sulphur dioxide scrubber system will be composed of the scrubber itself, associated ductwork, structural supports and piping, electric elements, reactive tanks for holding the reactive agents and recycling and thickening tanks from which the resulting calcium sulfite and calcium sulfate is withdrawn for final disposal. There will also be acquired and installed certain functionally related facilities to prepare reactant materials for use in scrubbers, together with pumps, mixers and holding tanks and conveyors and other transport mechanisms situated at or near reactant reception facilities in close proximity to the generating station for the receipt of reactants and transmission thereof to storage facilities or directly to the sulphur dioxide removal system.

SOLID WASTE DISPOSAL FACILITIES

Sludge produced by the sulphur dioxide removal system will be conveyed, together with flyash collected by the electrostatic precipitators, to the sludge and flyash processing facility, where sludge and flyash will be mixed with lime, dewatered and prepared for ultimate disposal. The system consists of receptacles for the storage and handling of flyash, lime and sludge, mixers, sludge pits, pumps, dewatering and solids-formation pads for receipt of the final waste product together with functionally related and subordinate facilities.

COOLING TOWER

A mechanical draft cooling tower with a closed-loop water system will be provided for the East Bend Generating Station, Unit 2. The purpose of the cooling tower is to transfer to the atmosphere the heat absorbed by waters circulated through the

condenser, which condenses low pressure steam discharged from the steam driven electric turbine. The closed-loop system with cooling tower is designed to minimize the release of heated water (thermal pollution) to the Ohio River and is required in order to conform to applicable water pollution control regulations. The described water pollution control and abatement facility consists of a mechanical draft cooling tower, pumps, circulating water pipes, structural supports and associated and related equipment. Because a portion of the cost of the closed-loop cooling tower is allocable to cost savings resulting because an alternate facility need not be constructed which would, without any pollution control restrictions, be an adequate facility to cycle water to and from the generating unit, only an incremental portion of the closed-loop cooling tower is deemed to be a Project facility.

WASTEWATER DISPOSAL FACILITIES

Sumps, piping, a sewage treatment plant, a neutralization basin and an ash pond will be acquired and constructed to provide for the disposal of various liquid wastes, including oil, chemicals, contaminated water and flow-off from coal piles.

ENGINEERING FEES, RESIDENT INSPECTION, CAPITALIZED INTEREST AND TEST COSTS

Sargent & Lundy, Consulting Engineers of Chicago, Illinois, and other firms have acted as Engineers to the Company in designing the Project facilities and have performed and will perform resident inspection services with respect thereto. Such costs, together with Company costs directly attributable to design and construction of the Project, capitalized interest and the testing of Project facilities are a part of the Project.

PART II

ADDITIONAL POLLUTION CONTROL FACILITIES

The pollution control facilities constituting the Project as described in Part I of this Exhibit A represent a portion of all of the pollution control facilities intended to be acquired, constructed and installed at the East Bend Generating Station, Units 1 and 2, which complete pollution control facilities are described in that certain Memorandum of Agreement dated as of February 17, 1976, by and between the County of Boone, Kentucky, The Cincinnati Gas & Electric Company and The Dayton Power and Light Company, as follows:

DESCRIPTION OF POLLUTION CONTROL FACILITIES
TO BE CONSTRUCTED IN CONNECTION WITH UNIT 1 AND
UNIT 2 OF THE EAST BEND GENERATING STATION
(BOONE COUNTY, KENTUCKY)

THE CINCINNATI GAS & ELECTRIC COMPANY
AND
THE DAYTON POWER AND LIGHT COMPANY

The Project will consist of air, solid waste and water pollution control and abatement facilities and systems. The Project will be installed in conjunction with the construction of Unit 1 and Unit 2 of an electric generation facility now known as the East Bend Generating Station, being constructed by The Cincinnati Gas & Electric Company and The Dayton Power and Light Company, to be situated near the community of Rabbit Hash, in Boone County, Kentucky, on the Ohio River.

The Project facilities and systems hereafter described are designed and are to be installed and utilized solely and only for the collection, removal, abatement, alteration, control, containment and disposition of atmospheric, solid waste and water pollutants so that gaseous and liquid emissions and sanitary effluent from Unit 1 and Unit 2 of the East Bend Generating Station meet applicable governmental air and water quality standards or limitations.

The following, together with necessary appurtenant and incidental facilities, constitute the major components of the Project:

ELECTROSTATIC PRECIPITATORS

Electrostatic precipitators or other comparable particulate control devices will be constructed in connection with Unit 1 and Unit 2, together with associated structural supports, power modules and electrical substations, and necessary and incidental ductwork. The electrostatic precipitators or other particulate control devices will be designed and intended solely and only to remove flyash and particulate matter from flue gases exiting the coal-fired steam boilers. Such air pollution control devices will be designed to at least meet or exceed applicable governmental air quality standards or limitations.

FLUE GAS DUCT SYSTEMS

Proposed flue gas duct systems will be designed to convey untreated boiler flue gases emitted from the steam boilers to the electrostatic precipitators or comparable particulate control devices where particulate emissions and flyash will be removed.

Induced draft fans and booster fans, as appropriate, will form an integral part of the flue gas duct systems. The system will convey partially cleansed flue gases to the sulphur dioxide removal systems following particulate removal.

FLYASH STORAGE SILOS AND ASSOCIATES FACILITIES

Flyash and particulate loadings removed from boiler flue gases by electrostatic precipitators or other particulate removal devices and collected from economizer hoppers and air heater hoppers will be conveyed either to storage silos for removal from the site in dry form or to proposed waste retention basin or basins, or central storage and removal facilities. Incorporated into all flyash storage silos will be bag-house filter systems for the control of dust.

ASH HANDLING AND TRANSPORT SYSTEMS

Proposed ash handling and transport systems will be either air or water pressure motivated. If water pressure motivated, the systems will utilize blowdown from proposed water cooling towers. If air pressure motivated, the systems will utilize compressors, fans or hydraulic facilities. In either case, the ash handling and transport systems will be designed to convey ash from collection hoppers at various generating station facilities to either (i) storage silos, (ii) ash retention basins, or (iii) other ash disposal facilities. Certain roadways solely for transportation of wastes will be constructed.

WASTE RETENTION BASINS

Proposed waste retention basins, involving substantial land, will be situated at the generating station and will serve no other purpose but to receive, contain and neutralize (i) flyash and particulate matter captured by operation of the electrostatic precipitators or by the dust control systems, (ii) bottom ash produced by operation of the coal-fired steam generators, (iii) liquid wastes produced by coal pile runoffs, chemical spills, oil spills and other causes (with exception of sanitary wastes which are treated by a separate sanitary sewer facility), and (iv) acid and caustic liquid wastes produced by boiler operations. The waste retention basins will allow neutralization of wastes collected therein, will function on the gravity-settling principle and will incorporate barriers and skimmers as appropriate to prevent floating flyash and floating liquid wastes, including waste oils, from being transmitted to the water source (Ohio River).

OIL ELIMINATION SYSTEM

An oil elimination and control system will be incorporated in each generating unit, which will collect oil runoffs, exudations

and spills and convey them to a central oil waste receptacle for skimming and separation of oils from watery effluent.

COAL DUST CONTROL SYSTEM

The proposed coal dust control system will provide facilities to prevent atmospheric pollution while coal is being conveyed from the coal storage and/or coal unloading facilities to the boilers. Coal is proposed to be transported from river barges by means of a mechanical unloader and conveyed to transfer houses where it will be crushed and thence delivered to coal storage bunkers by belt conveyors. The coal conveyor systems will be covered as required, and additional coal dust control devices will be employed at each transfer point and at the coal storage bunkers.

WATER COOLING TOWERS AND ASSOCIATED EQUIPMENT

Water cooling towers, complete with all necessary associated equipment, will be provided to remove heat (thermal pollution) from the steam turbine exhausts. The heat will be dissipated to the atmosphere and cooling tower blowdown streams will be utilized as required, to provide motive power for transporting bottom ash, flyash and other wastes to the waste retention basins or other waste disposal facilities.

SANITARY SEWAGE TREATMENT PLANT

A sanitary sewage treatment plant and necessary appurtenances will be constructed upon the generating station site to meet appropriate federal, state and local requirements. Such treatment plant will be adequate to serve all personnel permanently assigned to the generating station as well as all members of construction crews on the premises during construction of the East Bend Generating Station.

SULPHUR DIOXIDE REMOVAL SYSTEMS

Sulphur dioxide removal systems will be installed as appropriate, dependent upon the sulphur content of coal utilized in the generating process and regulatory requirements. Such facilities will be designed to reduce sulphur dioxide emissions to such level as will meet or exceed applicable governmental air quality standards or limitations. The sulphur dioxide removal facilities may utilize either the "wet scrubber" system, or such other system as at the time of design represents the most appropriate technology for the site and will meet or exceed applicable governmental air quality standards or limitations.

SLUDGE RETENTION BASINS

Sulphur dioxide removal systems may produce substantial solid or liquid waste byproducts. Dependent upon the sulphur dioxide removal process used, sludge retention basins will be provided to receive and hold such liquid and/or solid waste products for ultimate disposition.

AUXILIARY FACILITIES ASSOCIATED WITH SULPHUR DIOXIDE REMOVAL EQUIPMENT

Dependent upon the technology to be utilized, the sulphur dioxide removal systems will require facilities for reception of reactant material, together with holding vats or ponds, transmission lines, reactant tanks, pumps, sprays, transmission facilities and other associated structures and facilities.

ELEVATED FLUE GAS DIFFUSER

Proposed elevated flue gas diffusers (chimneys) will be constructed to maximize diffusion of stack gases produced by operation of the generating station.

MONITORING EQUIPMENT

Monitoring equipment, as required by appropriate laws and regulations, will be installed to monitor liquid discharges, solid waste discharges, stack gas discharges and ambient air quality.

ENGINEERING COSTS, RESIDENT INSPECTIONS, TEST COSTS AND ISSUANCE COSTS

Amounts representing engineering costs, resident inspection and testing of Project facilities, together with actual costs of Project facilities and bond issuance costs, will form a part of the Project.

MORGAN STANLEY

Date:	August 2, 2006		
To:	Union Light, Heat and Power Company d/b/a Duke Energy Kentucky, Inc. ✓	From:	Morgan Stanley Capital Services Inc.
Attn:	Stephen Trabucco	Contact:	New York Derivative Client Services Group
Em:	smtrabucco@duke-energy.com	Fax:	646 202 9190
Tel:	704 382 1780	Tel:	212 761 2996

Re: Swap Ref. No. HQQS7 RL

The purpose of this letter agreement is to confirm the terms and conditions of the Swap Transaction entered into between Morgan Stanley Capital Services Inc. ("Party A") and Union Light, Heat and Power Company d/b/a Duke Energy Kentucky, Inc. ("Party B") on the Trade Date specified below (the "Transaction"). This letter agreement constitutes a "Confirmation" as referred to in the ISDA Master Agreement below.

The definitions and provisions contained in the 2000 ISDA Definitions (the "Definitions"), as published by the International Swaps and Derivatives Association, Inc. are incorporated into this Confirmation In the event of any inconsistency between those definitions and this Confirmation, this Confirmation will govern.

1. This Confirmation evidences a complete, binding agreement between you and us as to the terms of the Transaction to which this Confirmation relates. In addition, this Confirmation supplements, forms a part of, and is subject to an agreement in the form of the 1992 ISDA Master Agreement (Multicurrency-Cross Border), with such modifications as are specified herein, as if we had executed an Agreement in such form on the Trade Date of the first such Transaction between us (the "Agreement"). All provisions contained or incorporated by reference in the Agreement shall govern this Confirmation except as expressly modified below. In the event of any inconsistency between the provisions of that Agreement and this Confirmation, this Confirmation will prevail for the purpose of this Transaction.

2. The terms of the particular Transaction to which this Confirmation relates are as follows:

Party A:	Morgan Stanley Capital Services Inc. ✓✓
Party B:	Union Light, Heat and Power Company d/b/a Duke Energy Kentucky, Inc. ✓✓
Trade Date:	August 2, 2006 ✓✓
Notional Amount:	USD 26,720,000 ✓✓
Effective Date:	August 2, 2006 ✓✓
Termination Date:	August 1, 2027 ✓✓

Fixed Amounts:

Fixed Rate Payer:	Party B
Fixed Rate Payer Payment Dates:	Each February 1 and August 1, commencing on February 1, 2007, up to and including the Termination Date, subject to adjustment in accordance with the Following Business Day Convention, with No Adjustment to Period End Dates.
Fixed Rate:	3.860%
Fixed Rate Payer Day Count Fraction:	30/360
Fixed Amounts Business Days for Payment:	New York and London

Floating Amounts:

Floating Rate Payer:	Party A
Floating Rate Payment Dates:	September 8, 2006 and on each fifth Friday thereafter, up to and including the Termination Date, subject to adjustment in accordance with the Following Business Day Convention.
Floating Rate Option:	Sixty-eight percent (68%) times USD-LIBOR-BBA, provided that the words "on the day that is two London Banking Days preceding that Reset Date" contained in the definitions of USD-LIBOR-BBA and USD-LIBOR-Reference Banks in Section 7.1 of the Definitions shall be replaced with "on the first day preceding that Floating Rate Reset Date that is a London Banking Day".
Designated Maturity:	One (1) month
Spread:	None
Floating Rate for initial Calculation Period:	68% times 5.39%
Floating Rate Payer Day Count Fraction:	Actual/360
Reset Dates:	The first day of each Calculation Period
Compounding:	Inapplicable
Floating Amounts Business Days for Payment:	New York

Calculation Agent: Morgan Stanley Capital Services Inc.

3. Additional Termination Event

The following shall constitute an Additional Termination Event with respect to Party B:

For the purpose of the foregoing Termination Event, the sole Affected Party shall be Party B.

Change of Ownership. With respect to Party B, if at any time after the date hereof, Duke Energy Corporation ceases to own, directly or indirectly, a majority of the share capital of Party B, or shares carrying a majority of the voting rights in Party B, Party B shall immediately propose to Party A, a third party to assume all of its rights and obligations hereunder, and (x) if such third party is acceptable to Party A, Party B shall ensure that such third party shall enter into such agreement or agreements and sign all documents as shall be necessary or appropriate to effect the assignment, transfer, novation or assumption of all Party B's rights and obligations hereunder to or by such third party, or (y) if such proposed third party is unacceptable to Party A, or such proposal is not made immediately, then an Additional Termination Event shall be deemed to have occurred with respect to Party B (with party B as the sole Affected Party and all Transactions as Affected Transactions).

4. Modifications to the Agreement:

The parties hereby agree to amend the Agreement referenced in paragraph 1 above as follows:

(a) **"Cross Default"** applies to Party A and Party B, except that Section 5(a)(vi)(1) is amended by deleting the words "or becoming capable at such time of being declared" from the seventh line thereof.

(b) For purposes of this Agreement:

"Specified Indebtedness" shall have the meaning specified in Section 14 of this Agreement provided that such term shall not include indebtedness in respect of deposits received.

"Threshold Amount" means (i) in respect of Party A, 3% of consolidated shareholders' equity of Party A and its subsidiaries determined in accordance with generally accepted accounting principles in the United States consistently applied as of the last day of the fiscal quarter ended immediately prior to the occurrence or existence of an event for which a Threshold Amount is applicable under Section 5(a)(vi) of this Agreement and, (ii) in respect of Party B, $150,000,000 or its equivalent in any currency or combination of currencies.

(c) **Payments on Early Termination. "Loss"** and **"Second Method"** will apply for the purpose of Section 6(e) of this Agreement.

(d) **"Termination Currency"** means United States Dollars.

(e) **Party A and Party B Payer Tax Representations.** For the purpose of Section 3(e), each of Party A and Party B makes the following representation:

It is not required by any applicable law, as modified by the practice of any relevant governmental revenue authority, of any Relevant Jurisdiction to make any deduction or withholding for or on account of any Tax from any payment (other than interest under Section 2(e), 6(d)(ii) or 6(e)) to be made by it to the other party under this Agreement. In making this representation, it may rely on (i) the accuracy of any representation made by the other party pursuant to Section 3(f); (ii) the satisfaction of the agreement of the other party contained in Section 4(a)(i) or 4(a)(iii) and the accuracy and effectiveness of any document provided by the other party pursuant to Section 4(a)(i) or 4(a)(iii); and (iii) the satisfaction of the agreement of the other party contained in Section 4(d), *provided* that it shall not be a breach of this representation where reliance is placed on clause (ii) and the other party does not deliver a form or document under Section 4(a)(iii) by reason of material prejudice to its legal or commercial position.

(f) **Payee Tax Representations**

(i) For the purpose of Section 3(f), Party A makes the following representation:

It is a U.S. corporation duly organized and incorporated under the laws of the State of Delaware and is an exempt recipient under Treasury Regulation Section 1.6049-4(c)(1)(ii).

(ii) For the purpose of Section 3(f), Party B makes the following representation:

It is a U.S. corporation duly organized and incorporated under the laws of the State of Kentucky.

(g) **Governing Law; Jurisdiction.** This Agreement, each Credit Support Document and each Confirmation will be governed by and construed in accordance with the laws of the State of New York. Section 13(b) is amended by: (1) deleting "non-" from the second line of clause (i); and (2) deleting the final paragraph.

(h) **Waiver of Jury Trial.** Each party waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any Proceedings relating to this Agreement or any Credit Support Document.

(i) **"Affiliate"** has the meaning specified in Section 14, but excludes Morgan Stanley Derivative Products Inc.

(j) **Additional Representations.** Section 3 is hereby amended by adding at the end thereof the following Subparagraphs:

"(g) **Commodity Exchange Act.** It is an "Eligible Contract Participant" as defined in Section 1a.(12) of the Commodity Exchange Act, as amended.

(h) **Non-Agency.** It is entering into this Agreement, any Credit Support Document to which it is a party, each Transaction and any other documentation relating to this Agreement or any Transaction as principal (and not as agent or in any other capacity, fiduciary or otherwise).

(i) **ERISA Representation.** It continuously represents that it is not (i) an employee benefit plan (hereinafter an "ERISA Plan"), as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), subject to Title I of ERISA or a plan subject to Section 4975 of the Internal Revenue Code of 1986, as amended, or subject to any other statute, regulation, procedure or restriction that is materially similar to Section 406 of ERISA or Section 4975 of the Code (together with ERISA Plans, "Plans"), (ii) a person acting on behalf of a Plan or (iii) a person any of the assets of whom constitute assets of a Plan. It will provide notice to the other party in the event that it is aware that it is in breach of any aspect of this representation or is aware that with the passing of time, giving of notice or expiry of any applicable grace period it will breach this representation. "

(k) **Relationship Between Parties.** Each party will be deemed to represent to the other party on the date on which it enters into a Transaction that (absent a written agreement between the parties that expressly imposes affirmative obligations to the contrary for that Transaction):

(i) **Non-Reliance.** It is acting for its own account, and it has made its own independent decisions to enter into that Transaction and as to whether that Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into that Transaction; it being

understood that information and explanations related to the terms and conditions of a Transaction shall not be considered investment advice or a recommendation to enter into that Transaction. No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of that Transaction.

(ii) **Assessment and Understanding.** It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of that Transaction. It is also capable of assuming, and assumes, the risks of that Transaction.

(iii) **Status of Parties.** The other party is not acting as a fiduciary for or an adviser to it in respect of that Transaction.

(l) **Addresses for Notices.** For the purpose of Section 12(a):

(i) Address for notices or communications to Party A:

Morgan Stanley Capital Services Inc.
1585 Broadway, 3rd Floor
New York, New York 10036
Attention: – Chief Legal Counsel

Facsimile No.: 212 507-4622 Telephone No.: 212-761-2533

(ii) Address for notices or communications to Party B:

Stephen Trabucco
526 South Church Street
Charlotte, North Carolina USA 28202-1802
Phone: +1 704 3821780
Email: smtrabucco@duke-energy.com

(m) **Notices.** Section 12(a) is amended by adding in the third line thereof after the phrase "messaging system" and before the ")" the words, "; provided, however, any such notice or other communication may be given by facsimile transmission if telex is unavailable, no telex number is supplied to the party providing notice, or if answer back confirmation is not received from the party to whom the telex is sent."

5. Account Details:

Payments to Party A:	Citibank, New York ABA No. 021 000 089 For: Morgan Stanley Capital Services Inc. Account No. 4072 4601
Payments to Party B:	[ ] (please provide)
Documentation Contacts:	Institutional Clients Hotline: +1 212-761-2996 Facsimile: +1 646-202-9190 Email: nydcsg@morganstanley.com
Controllers Contacts:	Tel 212 761 4662 Fax 410 534 1431

Please confirm that the foregoing correctly sets forth the terms of our agreement Ref. HQQS7 by executing this Confirmation and returning it to us.

Best Regards,

MORGAN STANLEY CAPITAL SERVICES INC.

J. N. Moore

BY:_____
Name: David N. Moore
Title: Vice President

Acknowledged and agreed as of the date first written above:

UNION LIGHT, HEAT AND POWER COMPANY D/B/A DUKE ENERGY KENTUCKY, INC.

BY: Elizabeth L. Rothrock
Name: Elizabeth L. Rothrock
Title: Portfolio Management, Duke Energy Corporation