Duke Energy

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PUBLIC SERVICE COMMISSION

139 East Fourth Street, Room 2500 AT II
P.O. Box 960
Cincinnati, Ohio 45201-0960
Tel: 513-419-1847
Fax: 513-419-1846
anita.schafer@duke-energy.com

Anita M. Schafer
Sr. Paralegal

VIA OVERNIGHT DELIVERY

April 1, 2008

Ms. Stephanie Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

Re: Case No. ~~2006-00563~~ 2008-00116

Dear Ms. Stumbo:

Enclosed please find an original and twelve copies of an Application to Amend its Financing Authority to Refinance Existing Tax-Exempt Authority bonds and to Enter into Loan Agreements.

Please date-stamp the extra two copies and return to me in the enclosed envelope.

Sincerely,

Anita M. Schafer
Senior Paralegal

cc: Hon. David E. Spenard (with enclosures)

CERTIFICATE OF SERVICE

I certify that a copy of the attached Amended Application on behalf of Duke Energy Kentucky, Inc. has been served by UPS overnight mail to the following parties on this 1st day of April, 2008:

Hon. David E. Spenard
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601

Amy B. Spiller

228193

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE COMMISSION

In the Matter of the Application of Duke Energy Kentucky, Inc. for an Order Amending Its Financing Authority to Authorize Loan Agreements, the Issuance of Unsecured Debt and Long-Term Notes, Execution and Delivery of Long-Term Loan Agreements, and Use of Interest Rate Management Instruments.	))))))	Case No. 2008-00118 ~~2006-00563~~

DUKE ENERGY KENTUCKY, INC.'s APPLICATION TO AMEND ITS FINANCING AUTHORITY TO REFINANCE EXISTING TAX-EXEMPT AUTHORITY BONDS AND TO ENTER INTO LOAN AGREEMENTS

Pursuant to KRS 278.300 and 807 KAR 5:001 Sections 8 and 11, Duke Energy Kentucky, Inc. ("DE–Kentucky") respectfully requests that the Kentucky Public Service Commission ("Commission") authorize DE–Kentucky to amend its existing financing authority as approved in Case No. 2006-00563 ("Existing Financing Authority"), to include the ability to borrow from Boone County Kentucky, or another authorized issuer of tax exempt bonds in the State of Kentucky ("Authority"), for a term not to exceed forty (40) years, the proceeds of up to a maximum of $76.72 million aggregate principal amount of Authority tax exempt revenue bonds that may be issued in one or more series ("Authority Bonds"). DE–Kentucky proposes to enter into one or more loan agreements ("Loan Agreements") with the Authority to evidence and secure its obligations to repay such loan or loans. DE–Kentucky will use the proceeds from any such loans to refinance existing tax-exempt Authority Bonds. The proceeds from the issuance of the securities will be used to refund existing obligations on currently outstanding tax exempt bonds, in

particular, the $76,720,000 County of Boone, Kentucky Pollution Control Revenue Refunding Bonds ("Duke Energy Kentucky, Inc. Project"), due August 1, 2027, which were issued in two series on June 26, 2006 (the "Boone County Bonds"). The refinancing transaction or transactions entered into pursuant to the authority requested with this Application to Amend the Existing Financing Authority will not result in any net increase to DE–Kentucky's long-term debt. DE–Kentucky requests such authority as soon as practical, and to continue through the period ending December 31, 2008, unless amended by Commission Order. In support of this Application, DE–Kentucky states as follows:

1. **Address:** DE–Kentucky is a Kentucky corporation with its principal place of business at 1697A Monmouth Street, Newport Shopping Center, Newport, Kentucky 41071. DE–Kentucky's principal executive office is 139 East Fourth Street, Cincinnati, Ohio 45202.

2. **Articles of Incorporation:** Pursuant to 807 KAR 5:001, Section 8(3), DE–Kentucky states that a certified copy of its Articles of Incorporation, as amended, was filed with the Commission in Case No. 2006-563 and is hereby incorporated by reference.

3. **Statement of Business:** DE–Kentucky is a utility as defined in KRS 278.010(3)(a) and (b), engaged in providing retail gas and electric service to its customers in Northern Kentucky in various municipalities and unincorporated areas of Kenton, Campbell, Boone, Gallatin, Grant, and Pendleton Counties. DE–Kentucky is thus subject to the Commission's jurisdiction.

4. **807 KAR 5:001 Section 11 (1)(a).** As of December 31, 2007, the original cost of DE–Kentucky's property was $1,499,356,685. The Company's principal properties consist of electric generating plants, and gas and electric distribution facilities.

5. **807 KAR 5:001 Section 11(1)(b).** DE–Kentucky proposes, with the necessary consent and authority of this Commission, an amendment to the Existing Financing Authority granted in Case No. 2006-00563. DE–Kentucky requests the Commission amend the Existing Financing Authority to include the ability to borrow from time to time over a period ending December 31, 2008, up to $76.72 million principal amount of proceeds of tax-exempt Authority Bonds issued for a term not to exceed forty (40) years. In addition, DE–Kentucky proposes to enter into one or more Loan Agreements with the Authority to evidence and secure its obligations to repay such loan or loans. DE–Kentucky will use the proceeds from any such loans to refinance existing tax-exempt financings. The authority requested with this Application is only to enter into the form of transaction described, and will not result in any net increase to DE–Kentucky's long-term debt.

As was normal and customary for utilities participating in the issuance of tax-exempt Auction Rate Securities, and as described by DE–Kentucky and authorized in prior proceedings, DE–Kentucky secured bond insurance for the Boone County Bonds in order to improve the credit ratings for the Boone County Bonds and therefore to lower the costs of such financings. However, recently the credit ratings for the bond insurers have been under negative credit watch, and in some cases lowered, due to insurance policies written for securities composed of collateralized debt obligations containing tranches of sub-prime mortgage securities. Because of these events, the interest rates on

the existing Boone County Bonds secured with bond insurance have increased significantly and DE–Kentucky believes that it will be advantageous and beneficial to refund the existing Boone County Bonds with new financings.

Method of Issuance. The Authority Bonds will be issued pursuant to one or more Indentures of Trust ("Indentures") to be entered into between the Authority and the trustee to be determined, which Indentures establish the terms of each series of the Authority Bonds. The Authority Bonds will be special obligations payable solely out of revenues derived from the payments by DE–Kentucky under the Loan Agreements.

Pricing Parameters. DE–Kentucky has developed parameters under which the Authority Bonds are to be sold. The parameters, as set forth in Exhibit A, are designed to provide a reasonable allowance for potential changes in financial market conditions between the time of Commission authorization and the actual sale of the Securities. The inclusion of the parameters within the Order would allow DE–Kentucky to request the Authority to sell the Authority Bonds at any time when it believes it is prudent to do so, provided the terms are within the parameters.

DE–Kentucky proposes that the Commission issue its order authorizing DE–Kentucky to execute and deliver the Loan Agreements prior to the time DE–Kentucky and the underwriters reach agreement with respect to the terms of the Authority Bonds.

It is anticipated the underwriters would offer the Authority Bonds to purchasers pursuant to one or more Official Statements. The proposed sale of the Authority Bonds will be exempt from registration under the Securities Act of 1933, as amended.

Security and Other Agreements. DE–Kentucky's obligations under the Loan Agreements will be to provide the Authority with sufficient revenues to enable it to pay

all of the principal of, premium, if any, and interest on, the Authority Bonds as and when any and all payments are due. DE–Kentucky may enter into letter of credit agreements to secure DE–Kentucky's obligations under the Loan Agreements. Alternatively, such Loan Agreement obligations may be unsecured.

DE–Kentucky would consider arranging an irrevocable letter of credit which would support future payments of interest and principal on the Authority's Bonds, if needed. DE–Kentucky would use such credit enhancements if the projected interest savings from having such credit enhancements would exceed the cost of the credit enhancement. Each Loan Agreement will stand alone, allowing DE–Kentucky the option of providing or not providing security, letters of credit or other credit enhancements under each Loan Agreement.

Accounting. DE–Kentucky proposes to either credit premiums or charge discounts, if any, and to charge the expenses to be incurred in connection with each refinancing to the proper deferred accounts and amortize such amounts over the respective lives of the Authority Bonds in equal annual amounts to current income.

Request for Commission Approval. DE–Kentucky requests that the Commission issue its order authorizing the borrowing of proceeds of the issuance and sale of the Authority Bonds as requested herein as soon as practical, but prior to April 30, 2008, so that DE–Kentucky may refund the Boone County Bonds in order to reduce interest costs. The Commission's amendment of Existing Financing Authority would not relieve DE–Kentucky of its responsibility to negotiate and obtain the best terms available for the structure selected and, therefore, it is appropriate and reasonable for this Commission to

authorize DE–Kentucky to agree to such terms and prices consistent with these pricing parameters.

Use of Interest Rate Management Techniques. DE–Kentucky requests that the Commission grant DE–Kentucky authority to continue to utilize interest rate management techniques and enter into interest rate management agreements to manage its overall effective interest cost. Such authority will allow DE–Kentucky sufficient alternatives and flexibility when striving to better manage its interest cost. Such authority was previously granted in Case Nos. 2001-00439, 2004-00435, and 2006-00563.

Description of the Interest Rate Management Agreements. The interest rate management agreements will facilitate products commonly used in today's capital markets, consisting of interest rate swaps, caps, collars, floors, options, or hedging products such as forwards or futures, or similar products, the purpose of which being to manage interest costs. DE–Kentucky expects to enter into these agreements with counterparties that are highly rated financial institutions. The transactions will be for a fixed period and a stated principal amount, and may be for underlying fixed or variable obligations of DE–Kentucky.

Pricing Parameters. DE–Kentucky proposes that the pricing parameters for interest rate management agreements be governed by the parameters corresponding to the underlying obligation in effect at its original issuance as specified in the Order authorizing such obligation by this Commission, if applicable.

Net fees and commissions in connection with any interest rate management agreement will be in addition to the above parameters and will not exceed 10% of the amount of the underlying obligation involved.

Accounting. DE–Kentucky proposes to account for these transactions in accordance with generally accepted accounting principles.

Request for Commission Approval. Since market opportunities for these interest rate management alternatives are transitory, DE–Kentucky must be able to execute interest rate management transactions when the opportunity arises to obtain the most competitive pricing. Thus, DE–Kentucky seeks approval to enter into any or all of the described transactions within the parameters discussed above prior to the time DE–Kentucky reaches agreement with respect to the terms of such transactions.

The authorization of the interest rate management agreements consistent with the parameters does not relieve DE–Kentucky of its responsibility to obtain the best terms available for the product selected and, therefore, it is appropriate and reasonable for this Commission to authorize DE–Kentucky to agree to such terms and prices consistent with said pricing parameters.

6. **807 KAR 5:001 Section 11(1)(c).** As described above, the proceeds from the issuance of the Authority Bonds will be used to refund the Boone County Bonds. The financing authority requested herein is consistent with the proper performance by DE–Kentucky of its services to the public, will not impair its ability to perform those services, and is reasonably necessary and appropriate for such purposes. DE–Kentucky does not have any plans to acquire any specific property with the long-term debt financing authority that the Company seeks in this application. If the Commission grants DE–Kentucky the financing authority it seeks, and if DE–Kentucky later decides to acquire property and finance it by using such financing authority, DE–Kentucky commits that it will provide the Commission with the details of such transaction.

7. **807 KAR 5:001 Section 11 (1) (d).** The securities described in this Application to Amend Financing Authority will be issued for refunding purposes only. Upon issuance of the securities, the existing Boone County Bonds will be called for redemption with the proceeds from the sale of the refunding bonds.

8. **807 KAR 5:001 Section 11(1)(e).** The Boone County Bonds were issued for their principal amount, $76,720,000. The proceeds of the sale of the Boone County Bonds were used to refund previously outstanding securities, as further described on page 1 of the Official Statement attached hereto as Exhibit B. Such description also provides the requested information with respect to the previously refunded bonds for which the Boone County Bond proceeds were used. The Boone County Bonds were issued as auction rate securities, and therefore bear a rate of interest determined by the Auction Procedures described in Schedule C to the Official Statement.

9. **807 KAR 5:001 Section 6 and Section 11(2)(f).** In Case No. 2006-00563, the Commission approved the issuance and sale of up to $100 million principal amount of Securities for general business purposes, for a period ending December 31, 2008. In 2006, DE–Kentucky issued the Boone County Bonds as insured auction-rate securities. However, due to difficulties in the auction market and the recent downgrade of the bond insurer, XL Capital Assurance, the interest rates on the auction-rate bonds have increased significantly. DE–Kentucky believes that it is prudent financial management to refund the bonds into tax-exempt securities of a different structure.

10. **807 KAR 5:001 Section 6 and Section 11(2)(a).** DE–Kentucky is filing the following information in Exhibit C, which is incorporated herein and made a part of this application:

Exhibit C Page	Description	807 KAR 5:001 Section Reference
	Financial Exhibit	6 and 11 (2) (a)
1	Amount and kinds of stock authorized	6 (1)
1	Amount and kinds of stock issued and outstanding	6 (2)
1	Terms of preference or preferred stock	6(3)
1	Brief description of each mortgage on property of DE–Kentucky	6 (4)
1	Amount of bonds authorized and issued and related information	6 (5)
2	Notes outstanding and related information	6 (6)
2	Other indebtedness and related information	6 (7)
3	Dividend information	6 (8)
4-9	Detailed Income Statement and Balance Sheet	6 (9)

11. **807 KAR 5:001 Section 11(2)(b).** The requested deeds of trust or mortgage documents indicated were filed with this Commission in Case No 2006-00563, *In the Matter of the Application of Duke Energy Kentucky, Inc., for an Order Authorizing the Issuance of Unsecured Debt and Long term Notes, Execution and Delivery of Long Term Loan Agreements, and the Use of Interest Rate management Instruments*, and are hereby incorporated by reference pursuant to 807 KAR 5:001 Section 11(2)(b).

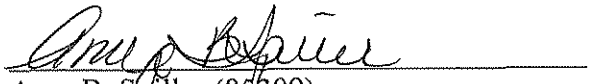
12. **807 KAR 5:001 Section 11(2)(c).** Since the purpose of this Application is to refinance transactions under Existing Financing Authority, and does not involve construction or other acquisition of real property, there are no maps to submit.

WHEREFORE, DE–Kentucky respectfully requests that the Commission issue an order to amend its existing financing authority as approved in Case No. 2006-00563, to include the ability to borrow the proceeds of tax exempt bonds from the Authority, enter into one or more Loan Agreements with the Authority to evidence and secure its obligations to repay such loan or loans, and authorizing DE–Kentucky to account for such transactions in the manner as herein set forth.

DUKE ENERGY KENTUCKY, INC.

By: _____
Stephen G. De May
Vice President and Treasurer

Its Attorney:



Amy B. Spiller (85309)
Associate General Counsel
Duke Energy Kentucky, Inc.
139 East Fourth Street
P.O. Box 960
Cincinnati, Ohio 45201-0960
Phone: (513)419-1810
Fax: (513)419-1846
Email: amy.spiller@duke-energy.com

VERIFICATION

State of North Carolina)
) SS:
County of Mecklenburg)

Stephen G. De May, being first duly sworn, states that he is Vice President and Treasurer of Duke Energy Kentucky, Inc.; that he has read the foregoing application; and that the contents are true to the best of his knowledge, information and belief.

Stephen G. De May

Subscribed and sworn to before me, this 27th day of March, 2008.

Notary Public

My commission expires 12/13/08.

Duke Energy Kentucky, Inc.

Authority's Pollution Control Revenue Refunding Bonds
Pricing Parameters

Principal Amount:	Up to $76,720,000 of Authority's Pollution Control Revenue Refunding Bonds ("Authority's Bonds") in one or more series, provided the aggregate of all such series shall not exceed $76,720,000.
Maturity:	Up to 40 years for the Authority Bonds.
Purpose:	To refinance existing tax-exempt Authority Bonds; $50,000,000 County of Boone, Kentucky, Pollution Control Revenue Refunding Bonds Series 2006A, and $26,720,000 County of Boone, Kentucky, Pollution Control Revenue Refunding Bonds Series 2006B.
Lead Underwriters:	To be named.
Underwriting Commissions or Agents' Fees:	Not to exceed 3.50% of the principal amount.
Price to Public:	No higher than 102% nor less than 98% of the principal amount, plus accrued interest, if any.
Interest Rate:	Not to exceed those generally obtainable at the time of pricing or repricing of such Bonds and Debentures for securities having the same or reasonably similar maturities and having reasonably similar terms, conditions and features issued by utility companies or utility holding companies of the same or reasonably comparable credit quality.
Security:	The Authority Bonds may include credit enhancements such as letters of credit or other security.

New Issue--Book-Entry-Only

Application Exhibit B

$76,720,000
County of Boone, Kentucky
Pollution Control Revenue Refunding Bonds
(Duke Energy Kentucky, Inc. Project)

$50,000,000	*$26,720,000*
Series 2006A	*Series 2006B*

Dated: Date of Issuance ***Due: August 1, 2027***

The Series 2006A Bonds and the Series 2006B Bonds (the "Bonds") will be special and limited obligations of the County of Boone, Kentucky (the "Issuer"), a de jure county and political subdivision of the Commonwealth of Kentucky, and will be payable solely from and secured exclusively by payments, revenues and other amounts pledged thereto pursuant to separate, but substantially identical, Indentures (described herein). The Bonds do not represent or constitute a debt or pledge of the faith and credit or taxing power of the Issuer or the Commonwealth of Kentucky (the "State") or any political subdivision thereof and the holders and owners of the Bonds will have no right to have any taxes levied by the Issuer or the State or any political subdivision or other taxing authority of the State for the payment or redemption price of, and interest on, the Bonds. See "THE ISSUER" herein.

The Bonds will be issued to refund certain bonds previously issued by the Issuer to provide funds to finance a portion of the costs of the acquisition and construction of certain air and water pollution control facilities and solid waste disposal facilities owned by The Union Light, Heat and Power Company (doing business as Duke Energy Kentucky, Inc.). The Bonds will be payable solely, except to the extent paid out of moneys attributable to proceeds thereof, from and secured by an assignment of loan payments to be received under separate, but substantially identical Loan Agreements with The Union Light, Heat and Power Company, doing business as

Duke Energy Kentucky, Inc.

Payment of the principal of and interest on the Bonds when due will be insured by separate bond insurance policies to be issued by XL Capital Assurance Inc. simultaneously with the delivery of the Bonds.

XL CAPITAL ASSURANCE®

Interest on each series of Bonds will accrue at the Auction Rate from the date of issuance and will be payable on the Business Day after the Auction Period, subject to certain exceptions. The initial Auction Period for the Bonds will end on September 7, 2006 and, unless changed in accordance with the Auction Procedures described in this Official Statement, the Bonds thereafter will continue to bear interest at Auction Rates for 35-day Auction Periods. The initial Auction Date for the Bonds will be September 7, 2006 and the initial Interest Payment Date will be September 8, 2006. The Auction Rate for all Bonds for the applicable Auction Period after the initial Auction Period will be the rate of interest per annum that the Auction Agent advises results from an Auction conducted in accordance with the Auction Procedures, subject to certain conditions. Deutsche Bank National Trust Company will serve as Trustee, Paying Agent and Registrar. Deutsche Bank Trust Company Americas will serve as the initial Auction Agent. Morgan Stanley & Co. Incorporated will serve as the initial Broker-Dealer and as Remarketing Agent for the Bonds.

The method for determining the interest rate to be borne by each series of the Bonds may be changed from an Auction Rate to a Daily Rate, Weekly Rate, Commercial Paper Rate or a Term Rate at the times and in the manner set forth in this Official Statement.

Prospective purchasers should carefully review the Auction Procedures described in this Official Statement and should note that (i) a Bid or a Sell Order constitutes a commitment to purchase or sell Auction Rate Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone or telefax communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Auction Rate Bonds may be transferred only pursuant to a Bid or a Sell Order placed in an Auction or to or through a Broker-Dealer. See also "THE BONDS – Auction Rate Period – Special Considerations Relating to Auction Rate Bonds."

The Bonds will be subject to optional, extraordinary optional and mandatory redemption and optional and mandatory tender prior to maturity, in each case at the price, in the manner and at the time set forth in this Official Statement.

The Bonds will be issued only as fully registered bonds and initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as a securities depository for the Bonds. Purchases of beneficial interests in the Bonds initially will be made in book-entry-only form (without certificates) in denominations of $25,000 or any integral multiple thereof for the Series 2006A Bonds and in denominations of $1,000 or any integral multiple thereof for the Series 2006B Bonds and under certain circumstances are exchangeable as more fully described herein. Principal of and any premium on the Bonds will be payable upon presentation and surrender of the Bonds at the corporate trust office of the Registrar. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to Cede & Co. See "THE BONDS -- Book-Entry-Only System" herein.

Price: 100%

Subject to continuing compliance with certain covenants and the accuracy of certain representations, in the opinion of Thompson Hine LLP, Bond Counsel, under existing law (i) interest on the Bonds will be excluded from the gross income of the owners thereof for federal income tax purposes, and (ii) interest on the Bonds will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is excluded from gross income of the owners thereof for Kentucky income tax purposes and the Bonds are exempt from all ad valorem taxes in Kentucky. See "TAX MATTERS" herein for further information and for a description of certain other federal tax consequences arising with respect to the Bonds.

The Bonds are offered when, as and if issued by the Issuer and accepted by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, the approval of legality by Thompson Hine LLP, as Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for Duke Energy Kentucky, Inc. by Robert Lucas, Associate General Counsel for Duke Energy Corporation, and Thompson Hine LLP, as counsel to the Company; for the Issuer by J.R. Schrand, Esq., County Attorney of the Issuer and Stoll Keenon Ogden PLLC, as special Kentucky counsel; and for the Underwriter by Squire, Sanders & Dempsey L.L.P. It is expected that delivery of the Bonds in book-entry-only form will be made on August 2, 2006, in New York, New York, against payment therefor.

MORGAN STANLEY

Dated: July 26, 2006

No dealer, broker, salesman or other person has been authorized by the County of Boone, Kentucky (the "*Issuer*"), The Union Light, Heat and Power Company (doing business as Duke Energy Kentucky, Inc.) (the "*Company*"), Morgan Stanley & Co. Incorporated (the "*Underwriter*") to give any information or to make any representation with respect to the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. Certain information contained herein has been obtained from the Issuer, the Company, the Insurer and the Underwriter and other sources which are believed to be reliable.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF SUCH BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Neither the Issuer, its counsel, nor any of its members, agents, employees or representatives have reviewed this Official Statement or investigated the statements or representations contained herein, except the Issuer has reviewed the statements relating to the Issuer set forth under the caption "THE ISSUER." Except with respect to the information contained under such caption, neither the Issuer, its counsel (provided that such counsel has not independently investigated the statements contained under such caption), nor any of its officials, agents, employees or representatives makes any representation as to the completeness, sufficiency and truthfulness of the statements set forth in this Official Statement. The officials of the Issuer and any other person executing the Bonds are not subject to personal liability by reason of the issuance of the Bonds. This Official Statement is not to be construed as an agreement or contract between the Issuer and the purchasers or holders of any Bonds.

TABLE OF CONTENTS

OFFICIAL STATEMENT

$76,720,000
County of Boone, Kentucky
Pollution Control Revenue Refunding Bonds
(Duke Energy Kentucky, Inc. Projects)

$50,000,000	**$26,720,000**
Series 2006A	**Series 2006B**

INTRODUCTORY STATEMENT

This Official Statement, including the cover page and Appendices, is provided to furnish information in connection with the offer and sale by the County of Boone, Kentucky (the "*Issuer*") of $50,000,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds, Series 2006A (Duke Energy Kentucky, Inc. Project) (the "*Series 2006A Bonds*") and $26,720,000 aggregate principal amount of its Pollution Control Revenue Refunding Bonds, Series 2006B (Duke Energy Kentucky, Inc. Project) (the "*Series 2006B Bonds*"; together with the Series 2006A Bonds, the "*Bonds*"), to be issued under separate, but substantially identical, Trust Indentures, dated as of August 1, 2006 (each an "*Indenture*"; together the "*Indentures*"), between the Issuer and Deutsche Bank National Trust Company, as trustee (the "*Trustee*"). The Registrar and Paying Agent will be Deutsche Bank National Trust Company and the initial Auction Agent will be Deutsche Bank Trust Company Americas, each located in New York, New York. Terms used as defined terms and not otherwise defined herein are used as defined in the Indentures.

The proceeds of the Series 2006A Bonds will be applied by the Issuer to refund: (i) all of the Issuer's outstanding 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*"), (ii) all of the Issuer's outstanding Collateralized Pollution Control Revenue Refunding Bonds, 1992 Series A (The Dayton Power and Light Company Project), originally issued in the aggregate principal amount of $48,000,000 (the "*1992 Bonds*") and currently outstanding in the aggregate principal amount of $12,720,000 and (iii) a portion of the Issuer's outstanding 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*", and together with the 1985 Bonds and the 1992 Bonds, the "*Refunded Bonds*"). The proceeds of the Series 2006B Bonds will be applied to refund the remaining portion of the 1994 Bonds. The Refunded Bonds each were originally issued to refund certain prior bonds of the Issuer originally issued to finance the costs of certain air and water pollution and solid waste disposal facilities (the "*Project Facilities*" or "*Project*") located at the East Bend Generating Station (the "*Generating Station*") within the boundaries of the Issuer, now owned by The Union Light, Heat and Power Company (doing business as Duke Energy Kentucky, Inc.) (the "*Company*"). See "APPLICATION OF PROCEEDS."

The proceeds of the Bonds will be loaned by the Issuer to the Company pursuant to separate, but substantially identical, Loan Agreements, dated as of August 1, 2006 (each a "*Loan Agreement*"; together, the "*Loan Agreements*"), between the Company and the Issuer. The Company will agree in each Loan Agreement to make payments sufficient to pay when due the principal of and interest and any premium on the related series of the Bonds and any other amounts relating thereto, including payment of the purchase price. See "THE LOAN AGREEMENTS."

The Company's obligations under the Loan Agreements will be unsecured. There is no requirement in the Indentures for the Company to provide or deliver any security for its obligations under the Loan Agreements.

The Bonds will be dated the date of their original issuance, will mature on August 1, 2027, will be subject to optional and mandatory tender for purchase, and will be subject to optional and mandatory redemption, as provided in each Indenture and as further described in this Official Statement. The Bonds will bear interest initially at an interest rate determined for the Auction Period ending on September 7, 2006, and thereafter will continue to bear interest at Auction Rates for 35-day Auction Periods, unless changed in accordance with the Auction Procedures described herein or until a conversion to a different interest rate determination method or until the maturity of the Bonds. The initial Auction Date for the Bonds will be September 7, 2006 and the initial Interest Payment Date will be September 8, 2006.

Upon the issuance of the Bonds, XL Capital Assurance Inc. (the "*Bond Insurer*") will issue separate, but substantially identical, bond insurance policies (together the "*Bond Insurance Policies*") that will guarantee the payment when due of the principal of and interest on the related series of the Bonds when due and upon special mandatory redemption on a determination of taxability as hereinafter described. The Bond Insurance Policies will be issued pursuant to an Insurance Agreement between the Company and the Bond Insurer to be dated the date of issuance of the Bonds (the "*Insurance Agreement*"). The Bond Insurance Policies will not insure payment of the purchase price of the Bonds subject to mandatory purchase or purchase on the demand of the bondholders thereof, losses suffered as a result of a bondholder's inability to sell the Bonds at an Auction, or payment of the principal, premium or interest on the Bonds as a result of an acceleration, redemption (other than special mandatory redemption on determination of taxability as hereinafter described) or other advancement of maturity. Certain information with respect to the Bond Insurance Policies and the Bond Insurer is included in this Official Statement. See "THE BOND INSURANCE POLICIES" and Appendix F. So long as the Bond Insurer is not in default under the Bond Insurance Policies, the Indentures and Loan Agreements may not be amended or supplemented without the prior written consent of the Bond Insurer, in accordance with the provisions of the Indentures. Upon the occurrence of an Event of Default under the Indentures, the Bond Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the bondholders or the Trustee. See "THE INDENTURES – Events of Default" and "– Rights of Bond Insurer."

The Bonds will be special and limited obligations of the Issuer, and will be payable solely from and secured exclusively by payments, revenues and other amounts pledged thereto pursuant to the related Indenture. The Bonds do not represent or constitute a debt or pledge of the faith and credit or taxing power of the Issuer or the Commonwealth of Kentucky (the "*State*") or any political subdivision thereof and the

holders and owners of the Bonds will have no right to have taxes levied by the Issuer or the State or any political subdivision or other taxing authority of the State for the payment or redemption price of, and interest on, the Bonds.

Brief descriptions of the Issuer, the Bonds, the Bond Insurance Policies, the Loan Agreements, the Indentures and the Continuing Disclosure Agreements, dated as of August 1, 2006 (the "*Continuing Disclosure Agreements*"), between the Company and the Trustee, are included in this Official Statement. Certain information with respect to the Company is included as or incorporated by reference in Appendix A hereto. Appendix B sets forth Certain Definitions; Appendix C describes the Auction Procedures for the Bonds; Appendix D describes the Settlement Procedures for the Bonds; Appendix E is the proposed form of the opinion of Bond Counsel to be delivered in connection with the issuance and delivery of the Bonds; and Appendix F is a Specimen Bond Insurance Policy.

All references herein to the documents are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety by reference to the definitive forms thereof included in each related Indenture. Copies of certain of the financing documents will be available for inspection at the corporate trust office of the Trustee and, until the issuance of the Bonds, may be obtained from the Underwriter. Except as described below, the information relating to the Issuer, the Bonds, the Loan Agreements and the Indentures contained under the headings "INTRODUCTORY STATEMENT," "THE ISSUER," "THE BONDS," "THE LOAN AGREEMENTS," "THE INDENTURES," "TAX MATTERS" and "LEGAL MATTERS" has been reviewed by Thompson Hine LLP, Bond Counsel, who are of the opinion that such information is fairly summarized herein. Appendix A to this Official Statement and all information contained under the heading "APPLICATION OF PROCEEDS" has been furnished by the Company, and neither the Issuer nor Bond Counsel assumes any responsibility for the accuracy or completeness of such Appendix or information. The information contained under the heading "THE BONDS--Book Entry Only System" has been furnished by DTC, and none of the Issuer, the Company, the Underwriter or Bond Counsel assume any responsibility for the accuracy or completeness of such information. The information relating to Bond Insurer and the Bond Insurance Policies contained under the heading "THE BOND INSURER" and in Appendix F has been provided by the Bond Insurer and neither the Issuer, the Company, the Underwriter nor Bond Counsel assume any responsibility for the accuracy or completeness of such information.

THE ISSUER

The Issuer is a body corporate and politic duly created and existing as a de jure county and political subdivision under the constitution and laws of the State. The Issuer is authorized by Section 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "*Act*") (i) to issue Bonds, (ii) to lend proceeds thereof to the Company for the purpose of refunding the Refunded Bonds, and (iii) to enter into and perform its obligations under the Loan Agreements and the Indentures relating to the Bonds. The Issuer, through its legislative body, the Fiscal Court, has adopted an ordinance authorizing the issuance of the Bonds and the execution and delivery of related documents.

Although the Issuer has consented to the use of this Official Statement in connection with the marketing of the Bonds, the Issuer has not participated in the preparation of this Official

Statement and, except for the information appearing herein under the caption "THE ISSUER," makes no representation as to its adequacy or accuracy.

APPLICATION OF PROCEEDS

Upon issuance of the Bonds, the proceeds of the Bonds will be deposited with the Trustee in the Refunding Fund created under the respective Indenture to be used, together with investment income thereon and other moneys provided by the Company, to redeem the Refunded Bonds within 90 days of the date of issuance of the Bonds. The Refunded Bonds will be redeemed at a redemption price of 100% of the principal amount thereof, plus accrued interest to the redemption date. The Company will pay fees and expenses of the Underwriter and other issuance costs and any other costs of refunding the Refunded Bonds.

THE BONDS

Each series of the Bonds will be issued under a separate Indenture, although each Indenture contains substantially identical terms and provisions. The occurrence of an event of default with respect to one series of the Bonds will not constitute an event of default with respect to the other series of the Bonds. Redemption or conversion of one series of the Bonds may be made in the manner described herein without the redemption or conversion of the Bonds of the other series. Funds pledged under an Indenture to secure one series of the Bonds will not be available for or pledged to the other series of the Bonds. In the following summary of terms of the Bonds, references to the Bonds, the Indenture, the Loan Agreement, the Auction Agency Agreement, the Broker-Dealer Agreement, and other defined terms should be read as separately referring to each series of the Bonds and the related Indenture, Loan Agreement, Auction Agency Agreement, Broker-Dealer Agreement and other defined terms, except as otherwise noted.

General

The Bonds will be issued under the Indenture in the aggregate principal amount and mature on the date set forth on the cover page hereof, subject to optional and mandatory redemption and optional and mandatory tender prior to maturity as described below. The Bonds will be issuable as fully registered Bonds without coupons in Authorized Denominations.

Auction Rate Period

Auction Rates

Interest on the Bonds will accrue from the date of issuance and delivery. For the Initial Interest Period, the interest rate will be the rate of interest per annum that is the minimum rate necessary to sell the Bonds on the date of issuance of the Bonds at the principal amount thereof (without regard to accrued interest). 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 on Auction Rate Bonds (the *"Auction Rate")* for each Auction Period after the Initial Interest Period will, subject to certain exceptions described below, be the rate that the Auction Agent advises has resulted on the Auction Date from the implementation of auction procedures set forth in *Appendix C* to this Official Statement (the *"Auction Procedures"),* in which persons determine to hold or offer to sell or, based on interest rates bid

by them, offer to purchase or sell Auction Rate Bonds. Each periodic implementation of the Auction Procedures is an *"Auction."* Interest on Auction Rate Bonds will be computed on the basis of a 360-day year for the number of days actually elapsed.

The rate of interest on the Auction Rate Bonds for each subsequent Interest Period will be the Auction Rate; provided that if, on any Auction Date, an Auction is not held for any reason, then the rate of interest for the next succeeding Interest Period will equal the Auction Rate in effect for the preceding Interest Period. In no event will the Auction Rate be an interest rate in excess of the Maximum Auction Rate on any Auction Date or the Maximum Interest Rate at any time. Notwithstanding the foregoing, if: (a) the ownership of the Auction Rate Bonds is no longer maintained in the Book-Entry System, the rate of interest on the Auction Rate Bonds for any Interest Period commencing after the delivery of certificates representing Auction Rate Bonds will equal the Auction Rate in effect for the preceding Interest Period; (b) a Payment Default occurs, Auctions will be suspended and the Applicable Auction Rate Bonds Rate for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than the Applicable Number of Business Days after, such Payment Default is cured will equal the Maximum Auction Rate; or (c) if a failed conversion occurs following a proposed selection of a different method of determining interest on the Bonds, and the next succeeding Auction Date will be two or fewer Business Days after (or on) the effective date of any such failed conversion, then an Auction will not be held on such Auction Date and the rate of interest on the Auction Rate Bonds for the next succeeding Interest Period will be equal to the Auction Rate in effect for the preceding Interest Period. Certain special provisions apply regarding the determination of an Auction Rate if Sufficient Clearing Bids have not been made or in the event of the failure to meet certain conditions required to (i) change the length of an Auction Period, (ii) adjust the percentages used to determine the Maximum Auction Rate or (iii) effect a change in the method of determining interest on the Bonds. See "Auction Procedures – Appendix C."

Auction Periods and Dates

An Auction to determine the Auction Rate for each Auction Period after the initial Auction Period will occur on each Auction Date. The Auction Date for each Auction Period will be the Business Day immediately preceding the first day of each Interest Period, other than: (a) each Interest Period commencing after the ownership of the Auction Rate Bonds is no longer maintained in book entry form by the Depository; (b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default. It is presently anticipated that after the Initial Interest Period an Auction Period of 35 days will be maintained for the Bonds and, therefore, Auctions for the Bonds are anticipated to be held every fifth Thursday, commencing September 7, 2006. The Company may change the length of one or more Auction Periods or establish a different day as the Auction Date for future Auction Periods. See "Changes in the Auction Terms – *Changes in the Auction Date."*

Special Considerations Relating to Auction Rate Bonds

Securities and Exchange Commission Inquiries. On May 31, 2006, the U.S. Securities and Exchange Commission (the "*SEC*") announced that it had settled its investigation of 15 firms, including Morgan Stanley & Co. Incorporated (the "*Broker-Dealer*") and its affiliated broker-dealer, Morgan Stanley DW Inc., that participate in the auction rate securities market regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, Morgan Stanley & Co. Incorporated and Morgan Stanley DW Inc. together agreed to pay a civil money penalty of $1,500,000. In addition, both Morgan Stanley & Co. Incorporated and Morgan Stanley DW Inc., without admitting or denying the SEC's allegations, agreed to be censured, to cease and desist from violating certain provisions of the securities laws, to provide to customers written descriptions of their material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by Morgan Stanley & Co. Incorporated and Morgan Stanley DW Inc. to conduct the auction process in accordance with disclosed procedures. No assurances are given as to how the settlement may affect the market for auction rate securities or the Bonds.

Bidding by Initial Broker-Dealer. The Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for its own account (including for its affiliated broker-dealers) either as a Bidder or a Seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealer submits an Order for its own account (including for its affiliated broker-dealers), it would likely have an advantage over other Bidders because the Broker-Dealer would have knowledge of some or all of the other Orders placed through the Broker-Dealer (including through affiliated broker-dealers) in that Auction and, thus, could determine the rate and size of its Order so as to ensure that its Order is likely to be accepted in the Auction and that the Auction is likely to clear at a particular rate. For this reason, and because the Broker-Dealer is appointed and paid by the Company to serve as the Broker-Dealer in the Auction, the Broker-Dealer's interests in conducting an Auction may differ from those of Existing Holders and Potential Holders who participate in Auctions. *See* "Auction Dealer Fees." The Broker-Dealer (including its affiliated broker-dealers) would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker-Dealer Agreement.

The Broker-Dealer may routinely place one or more Bids in an Auction for its own account, to acquire the securities for its inventory (or that of its affiliated broker-dealer), to prevent an Auction Failure Event (which would result in the Auction Rate being set at the Maximum Auction Rate) or an Auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for the securities. The Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it (including through affiliated broker-dealers). When bidding for its own account, the Broker-Dealer may also bid outside or inside the range of rates that it posts in its Price Talk. *See* "Price Talk."

The Broker-Dealer also may routinely encourage bidding by others in Auctions, which may include to prevent an "auction failure event" or an Auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for the securities. The Broker-Dealer

may routinely encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it (or through affiliated broker-dealers).

Bids by the Broker-Dealer or by those it may encourage to place Bids are likely to affect (i) the Auction Rate – including preventing the Auction Rate from being set at the Maximum Auction Rate or otherwise causing Bidders to receive a higher or lower rate than they might have received had the Broker-Dealer not bid or not encouraged others to bid and (ii) the allocation of securities being auctioned – including displacing some Bidders who may have their Bids rejected or receive fewer securities than they would have received if the Broker-Dealer had not bid or encouraged others to bid. Because of these practices, the fact that an Auction clears successfully does not mean that an investment in the securities involves no significant liquidity or credit risk. The Broker-Dealer is not obligated to continue to place such bids or to encourage other Bidders to do so in any particular Auction to prevent an Auction from failing or clearing at a rate the Broker-Dealer believes does not reflect the market for the securities. Investors should not assume that the Broker-Dealer will do so or assume that "auction failure events" will not occur. Investors should also be aware that Bids by Broker-Dealer or by those it may encourage to place Bids may cause unfavorable Auction Rates to occur.

In any particular Auction, if all outstanding securities are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "All Hold Auction"). When an All Hold Auction is likely, the Broker-Dealer may, but is not obligated to, advise Existing Holders of that fact, which might facilitate the submission of Bids by Existing Holders that would avoid the occurrence of an All Hold Auction. If the Broker-Dealer decides to inform existing holders of the likelihood of an All Hold Auction, it will make that information available to all of its customers that are Existing Holders at the same time.

If the Broker-Dealer (or an affiliated broker-dealer) holds the securities for its own account on an Auction Date, the Broker-Dealer (or such affiliated broker-dealer) will submit a Sell Order into the Auction with respect to such position in such securities, which would prevent that Auction from being an All Hold Auction. The Broker-Dealer (or such affiliated broker-dealer) may, but is not obligated to, submit Bids for its own account in that same Auction, as set forth above.

Auction Dealer Fees. For many auction rate securities, the Broker-Dealer has been appointed by the issuers of the securities to serve as a dealer for the related auctions and is paid by those issuers for its services. With respect to the Bonds, the Broker-Dealer has been appointed to serve as a dealer in the Auctions pursuant to the Broker-Dealer Agreement between the Auction Agent and the Broker-Dealer. That Agreement provides that the Broker-Dealer will receive from the Company auction dealer fees at the annual rate of .25% of the principal amount of the Bonds sold or successfully placed through the Broker-Dealer. As a result, the Broker-Dealer's interests in conducting Auctions may differ from those of investors who participate in Auctions. The Broker-Dealer may share a portion of the auction dealer fees it receives from the Company with other broker-dealers (including affiliated broker-dealers) that submit Orders through the Broker-Dealer that the Broker-Dealer successfully places in Auctions.

Similarly, with respect to auctions for other auction rate securities for which the Broker-Dealer does not serve as a dealer, the other broker-dealers who serve as dealers in those

auctions may share auction dealer fees with the Broker-Dealer for orders that the Broker-Dealer submits through those broker-dealers that those broker-dealers successfully place in those auctions.

Price Talk. Before the start of an Auction, the Broker-Dealer may, in its discretion, make available to Existing Holders and Potential Holders, the Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction based on market and other information. This is known as "Price Talk." Price Talk is not a guarantee, and Existing and Potential Holders are free to use it or ignore it. If the Broker-Dealer (or an affiliated broker-dealer) provides Price Talk, the Broker-Dealer (or such affiliated broker-dealer) will make the Price Talk available to all Existing Holders and Prospective Holders. The Broker-Dealer may occasionally update and change the Price Talk based on, for example, changes in issuer credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. The Broker-Dealer (or such affiliated broker-dealer) will make such changes available to all Existing Holders and Potential Holders that were given the original Price Talk.

"All-or-Nothing" Bids. The Broker-Dealer (including any affiliated broker-dealer) does not accept "all-or-nothing" bids (*i.e.*, bids whereby the bidder proposes to reject an allocation smaller than the entire quantity bid) or any other type of bid that allows the bidder to avoid auction procedures that require the pro rata allocation of securities where there are not sufficient sell orders to fill all bids at the clearing rate.

No Assurances Regarding Auction Outcomes. The Broker-Dealer (including any affiliated broker-dealer) provides no assurance as to the outcome of any Auction, nor provides any assurance that any Bid will be accepted or that the Auction will clear at a rate that a Bidder considers acceptable. Bids may be rejected or may be only partially filled, and the rate on any Bonds purchased or retained may be lower than the Bidder expected.

Deadlines/Auction Periods. Each particular Auction has a formal time deadline by which all Bids must be submitted by the Broker-Dealer to the Auction Agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealer (and any affiliated broker-dealer) imposes an earlier deadline – called the "Internal Submission Deadline" – by which Bidders must submit Bids to the Broker-Dealer (or such affiliated broker-dealer). The Internal Submission Deadline is subject to change by the Broker-Dealer (or such affiliated broker-dealer). The Broker-Dealer may allow for correction of clerical errors after the Internal Submission Deadline and prior to the Submission Deadline. The Broker-Dealer (or such affiliated broker-dealer) may submit Bids for its own account at any time until the Submission Deadline. Some auction agents allow for the correction of clerical errors for a specified period of time after the Submission Deadline.

Existing Holder's Ability to Resell Auction Rate Securities May Be Limited. Existing Holders will be able to sell all of the Bonds that are the subject of submitted Sell Orders only if there are Bidders willing to purchase all those Bonds in the Auction. If sufficient clearing Bids have not been made, Existing Holders that have submitted Sell Orders will not be able to sell in the Auction some or all of the Bonds subject to such submitted Sell Orders. As discussed

above (see "Bidding by Initial Broker-Dealer"), the Broker-Dealer may submit a bid in an Auction to keep it from failing, but it is not obligated to do so. There may not always be enough bidders to prevent an Auction from failing in the absence of the Broker-Dealer bidding in the Auction for its own account or encouraging others to bid.

Between Auctions, there can be no assurance that a secondary market for the Bonds will develop or, if it does develop, that it will provide Existing Holders the ability to resell the Bonds on the terms or at the times desired by an Existing Holder. The Broker-Dealer (or an affiliated broker-dealer) may, in its own discretion, decide to buy or sell the Bonds in the secondary market for its own account to or from investors at any time and at any price, including at prices equivalent to, below, or above the par value of the Bonds. However, neither the Broker-Dealer (nor its affiliated broker-dealers) is obligated to make a market in the Bonds, and may discontinue trading in the Bonds without notice for any reason at any time. Existing Holders who resell between Auctions may receive less than par value, depending on market conditions.

The ability to resell the Bonds will depend on various factors affecting the market for the Bonds, including news relating to the Company or the Bond Insurer, the attractiveness of alternative investments, the perceived risk of owning the Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Bonds (including recent clarification of U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in "Securities and Exchange Commission Inquiries," *above*) or press reports, financial reporting cycles and market conditions generally. Demand for the Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

The Auction Agency Agreement (described below) provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 45 days notice to the Company and the Broker-Dealer, among others, and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon five days notice and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold auctions, with the result that the interest rate on the Bonds will be determined as described in *Appendix C* – "Auction Procedures."

Broker-Dealers

As described above, the initial Broker-Dealer for the Bonds is Morgan Stanley & Co. Incorporated (together with any successor or other entity entering into a Broker-Dealer Agreement, the *"Broker-Dealer"* and collectively, the *"Broker-Dealers"*). The Auction Agent will enter into separate, but substantially identical, agreements with the Broker-Dealer with respect to each series of the Bonds and, from time to time, may enter into similar agreements (each, a "*Broker-Dealer Agreement*" and, collectively, the "*Broker-Dealer Agreements*") with one or more additional Broker-Dealers, at the written direction of the Company with the approval of the Remarketing Agent (which approval will not be unreasonably withheld) which provide for their participation in Auctions. The Company may elect to designate a new Broker-Dealer for the Series 2006B Bonds prior to, or shortly following, the end of the Initial Interest

Period for the Series 2006B Bonds. The Auction Agent will pay to each Broker-Dealer after each auction, from funds provided by the Company, a service charge that will be based on a rate equal to the percentage of the stated value of the Bonds held by such Broker Dealer and such Broker-Dealer's customers upon settlement in an Auction calculated on an annualized basis. See "*Special Considerations Relating to Auction Rate Bonds* – Auction Dealer Fees" above. A Broker-Dealer may share a portion of such fee with non-participating broker-dealers that submit Bids to the Broker-Dealer that are fulfilled at an Auction. In the event that there is more than one Broker-Dealer, the Company will specify which Broker-Dealer is to perform certain functions under the Indenture.

Interest Payment Dates

Interest on the Auction Rate Bonds initially will be payable on the first Business Day after the end of each Auction Period. It is presently anticipated that each Auction Period for the Bonds will be 35 days, in which case the Interest Payment Dates after the initial Interest Payment Date (September 8, 2006) generally will be every fifth Friday.

The determination of any interest rate by the Remarketing Agent in accordance with the Indenture or by the Auction Agent in accordance with the Auction Procedures will be conclusive and binding upon the Issuer, the Trustee, the Paying Agent, the Auction Agent, the Remarketing Agent, the Company, all Broker-Dealers and the registered and beneficial owners of Auction Rate Bonds. Failure of the Remarketing Agent, the Paying Agent, the Trustee, the Auction Agent or DTC or any DTC Participant to give any of the notices described in the Indenture, or any defect therein, will not affect the interest rate to be borne by any Auction Rate Bonds nor the applicable Auction Period.

In no event will the Auction Rate be more than the Maximum Auction Rate on any Auction Date or the Maximum Interest Rate at any time.

Auction Agency Agreement

The Company will enter into separate, but substantially identical, agreements (each an "*Auction Agency Agreement*" and, collectively, the *"Auction Agency Agreements")* with respect to each series of Bonds with Deutsche Bank Trust Company Americas (together with any successor bank or trust company or other entity entering into a similar agreement with the Company, the *"Auction Agent")* which provide, among other things, that the Auction Agent will follow the Auction Procedures for the purposes of determining the Auction Rate so long as the Auction Rate is to be based on the results of an Auction. See "Auction Procedures – *Concerning the Auction Agent."*

Remarketing Agreement

The Company will enter into separate, but substantially identical, Remarketing Agreements (the *"Remarketing Agreements"*) with Morgan Stanley & Co. Incorporated with respect to each series of Bonds (together with any successor as remarketing agent under the Indenture, the *"Remarketing Agent"*), which sets forth the Remarketing Agent's duties and responsibilities and provides for the remarketing of Bonds bearing an interest rate other than an

Auction Rate. For each Rate Period, the interest rate for the Bonds will be determined by the Remarketing Agent in accordance with the Indenture; provided that, the interest rate or rates borne by the Bonds may not exceed the lesser of (a) 13% per annum, (b) the maximum rate of interest permitted under State law, or (c) in the case of Bonds bearing interest at a Variable Rate, the maximum rate of interest permitted by any Liquidity Facility then in effect (the "*Maximum Interest Rate*"). See also "THE INDENTURES – Remarketing Agent."

Liquidity Facility

Under the Indenture, upon conversion to a Rate Period that provides for either optional or mandatory tender for purchase of Bonds prior to maturity, a Liquidity Facility acceptable to the Bond Insurer must be delivered to the Trustee to provide for the payment of purchase price of Bonds tendered for optional or mandatory purchase, unless the requirement to deliver a Liquidity Facility is waived by the Bond Insurer. *No Liquidity Facility will be provided in connection with Auction Rate Bonds.* As a consequence, certain provisions in the Indenture that would be applicable to the Bonds if a Liquidity Facility were delivered are not described in this Official Statement. If, at the option of the Company, a Liquidity Facility is delivered with respect to the Bonds, the Bonds will be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof on the date of the delivery of the Liquidity Facility.

Depository

Unless a successor securities depository is designated pursuant to the Indenture, or unless the Company otherwise directs, DTC will act as the Depository for its members and participants (the "*DTC Participants*") with respect to Auction Rate Bonds. On the date of delivery of Auction Rate Bonds offered hereby, the Auction Rate Bonds will be issued in a global Bond in the denomination equal to the aggregate principal amount of Auction Rate Bonds authorized pursuant to the Indenture. It is anticipated that such Bond will be registered in the name of Cede & Co., a nominee of DTC. The global Bond will bear a legend to the effect that such global Bond is issued subject to the provisions restricting transfers of Auction Rate Bonds contained in the Indenture. Stop-transfer instructions will be issued to the Paying Agent. DTC or its nominee will be the holder of record of all issued and outstanding Auction Rate Bonds and beneficial owners of such Auction Rate Bonds may not obtain physical possession of Auction Rate Bonds beneficially owned by them.

Payment of principal, interest and premium, if any, on Auction Rate Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of Auction Rate Bonds. Upon receipt of moneys, the current practice of DTC is to credit immediately the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants to beneficial owners are governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participants and not of DTC, the Issuer, the Trustee, the Paying Agent, the Auction Agent or the Company, subject to any statutory and regulatory requirements as may be in effect from time to time. No assurances can be provided that in the event of bankruptcy or insolvency of

DTC or a DTC Participant through which a beneficial owner holds its interest in Auction Rate Bonds, payment will be made by DTC or the DTC Participant on a timely basis.

The Issuer, the Trustee, the Paying Agent, the Company and the Remarketing Agent will recognize DTC or its nominee as the registered owner of Auction Rate Bonds for all purposes, including notices and consents. Conveyance of notices and other communications by DTC to DTC Participants and by DTC Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

Bond certificates are required to be issued in exchange for a global certificate and registered in such names of the Beneficial Owner and in Authorized Denominations as the Depository, pursuant to instructions from the Participants or otherwise, will instruct the Trustee under the following circumstances:

(a) The Depository determines to discontinue providing its service with respect to the Bonds and no successor has been appointed within 90 days after the Company receives notice thereof. Such a determination may be made by a Depository at any time by giving notice to the Company, the Issuer, the Trustee, the Auction Agent, the Registrar and the Paying Agent and discharging its responsibilities with respect thereto under applicable law.

(b) The Company determines that continuation of the system of Book-Entry transfers through the Securities Depository is not in the best interests of the Beneficial Owners.

(c) The Remarketing Agent has notified the Issuer, the Company, the Auction Agent, the Registrar, the Paying Agent and the Trustee that the Auction Rate Bonds should not be maintained in the Book-Entry System.

(d) The Depository is no longer registered or in good standing under the Securities Exchange Act or other applicable statute or regulation and no successor has been appointed within 90 days after the Company receives notice thereof.

DTC, which is a New York-chartered, limited purpose trust company, performs services for its participants (including the DTC Participants), some of whom (and/or their representatives) own DTC. DTC maintains lists of its participants and will maintain the positions (ownership interests) held by each DTC Participant in Auction Rate Bonds, whether as an Existing Holder for its own account or as a nominee for another Existing Holder. Each Beneficial Owner of Auction Rate Bonds must make arrangements with its DTC Participant or Broker-Dealer to receive notices and payments with respect to Auction Rate Bonds.

Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial

Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

THE ISSUER, THE COMPANY, THE TRUSTEE, THE REGISTRAR, THE PAYING AGENT, THE AUCTION AGENT, THE BROKER-DEALER AND THE REMARKETING AGENT HAVE NO RESPONSIBILITY WITH RESPECT TO (I) THE ACCURACY OF THE RECORDS OF DTC OR ANY DTC PARTICIPANT AS TO THE BENEFICIAL OWNERSHIP OF AUCTION RATE BONDS; (II) THE DELIVERY OF EITHER NOTICES OR PAYMENT TO ANY PARTY OTHER THAN DTC OR ITS NOMINEE AS REGISTERED OWNER OF AUCTION RATE BONDS; (III) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE HOLDER OF RECORD OF ALL ISSUED AND OUTSTANDING AUCTION RATE BONDS; OR (IV) THE SELECTION BY DTC OR ANY DTC PARTICIPANTS OF ANY BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF AUCTION RATE BONDS.

See "Book-Entry-Only System" below for further information about DTC and its procedures.

Auction Procedures

Auction and Settlement Procedures. A summary of the Auction Procedures is set forth in *Appendix C* to this Official Statement.

A summary of the Settlement Procedures (as set forth in Exhibit A to the initial Broker-Dealer Agreement) to be used with respect to Auctions is set forth as *Appendix D* to this Official Statement.

Concerning the Auction Agent. Deutsche Bank Trust Company Americas is the initial Auction Agent. The Auction Agent is acting as agent for the Company in connection with Auctions. In the absence of willful misconduct or negligence on its part, the Auction Agent will not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agency Agreement and will not be liable for any error of judgment made in good faith unless the Auction Agent has been negligent in ascertaining (or failing to ascertain) the pertinent facts necessary to make such judgment.

The Auction Agent may terminate the Auction Agency Agreement upon notice in accordance with the Indenture. The Auction Agent may be removed at any time by the Company, with the consent of the Bond Insurer (such consent not to be unreasonably denied), or the holders of a majority of the aggregate principal amount of the Auction Rate Bonds upon at least 45 days' written notice to the Auction Agent, the Paying Agent, the Registrar, the Issuer, the Broker-Dealers, the Bond Insurer and the Remarketing Agent. If the Auction Agent should resign or be removed, the Company is obligated under the Remarketing Agreement to use its best efforts to appoint a successor Auction Agent and enter into an agreement with a successor Auction Agent, subject to the consent of the Bond Insurer, containing substantially the same terms and conditions as the Auction Agency Agreement.

Changes in the Auction Terms

Changes in an Auction Period. The Company may change the length of one or more Auction Periods (and will make a corresponding change in the Interest Payment Date) in order to conform with then current market practice with respect to similar securities. The Company may also change the length of one or more Auction Periods (and may make a corresponding change in the Interest Payment Date) in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the Auction Rate Bonds.

The Company will initiate the change in the length of one or more Auction Periods by giving written notice to the Trustee, the Paying Agent, the Auction Agent, the Remarketing Agent, the Issuer and the Depository in the form required by the Indenture at least five days prior to the Auction Date for such Auction Period.

Any such changed Auction Period may not be less than seven days and must be an integral multiple of seven days.

The change in the length of one or more Auction Periods will not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given and the Auction immediately preceding the proposed change.

The change in length of one or more Auction Periods will take effect only if (A) the Paying Agent, the Remarketing Agent and the Auction Agent receive, by 11:00 a.m., New York City time on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Authorized Company Representative in substantially the form required by the Indenture, authorizing the change in the length of one or more Auction Periods specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. If the condition referred to in (A) above is not met, the Applicable Auction Rate Bonds Rate for the next Auction Period will be determined pursuant to the Auction Procedures and the Auction Period will be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Applicable Auction Rate Bonds Rate for the next Auction Period will be the Maximum Auction Rate and the Auction Period will be the Auction Period determined without reference to the proposed change.

Changes in the Auction Date. The Company may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" with respect to one or more specified Auction Periods in order to conform with then current market practice with respect to similar securities. The Company, in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Auction Rate Bonds, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" with respect to one or more specified Auction Periods. The Authorized Company Representative will provide notice of any determination to specify an earlier Auction Date for one or more Auction Periods by means of a

written notice delivered at least five days prior to the proposed changed Auction Date to the Trustee, the Paying Agent, the Auction Agent, the Remarketing Agent, the Issuer and the Depository. Such notice will be substantially in the form of, or contain substantially the information required by, the Indenture.

Notice Regarding Changes. Pursuant to the Auction Agency Agreement, the Auction Agent will mail to the Existing Holders within two Business Days of its receipt thereof: (1) any notice of a change in the Auction Period and (2) any certificate authorizing the adjustment of the All Hold Rate and/or the Applicable Percentage used to determine the Maximum Auction Rate. EXISTING HOLDERS TO WHOM ANY OF THE FOREGOING NOTICES HAVE BEEN DELIVERED SHOULD CONTACT THEIR BROKER-DEALER TO BE GIVEN INFORMATION REGARDING ANY OF THE FOREGOING CHANGES.

Interest Rate Determination Methods

Determination of Interest Rates and Rate Periods (other than Auction Rate). Following Conversion from an Auction Rate Period, each interest rate to be determined by the Remarketing Agent will be the lowest rate of interest which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value on the commencement date of such Rate Period equal to the principal amount thereof plus accrued and unpaid interest, if any, under prevailing market conditions as of the date of determination. In no event will the Variable Rate be an interest rate in excess of the Maximum Interest Rate. All determinations of Variable Rates, including Commercial Paper Rate Periods and Term Rate Periods, pursuant to the Indenture will be conclusive and binding upon the Issuer, the Company, the Trustee, the Paying Agent, the Liquidity Facility Issuer and the holders of the Bonds. The Variable Rate in effect for Bonds during any Rate Period will be available to Holders on the date such Variable Rate is determined, between 1:00 p.m. and 5:00 p.m., New York City time, from the Remarketing Agent or the Trustee at their principal offices. Under the Indenture, the Bonds may be in different Rate Periods at any one time and the provisions of the Indenture will separately apply with respect to each portion of the Bonds.

During any transitional period for a conversion from the Commercial Paper Rate Period to a Daily or Weekly Rate Period in which the Remarketing Agent is setting different Commercial Paper Rate Periods in order to effect an orderly transition of such conversion, Bonds bearing interest at the Commercial Paper Rate will be governed by the provisions of the Indenture applicable to Commercial Paper Rate Periods and Commercial Paper Rates, and Bonds bearing interest at the Daily Rate or Weekly Rate, as applicable, will be governed by the provisions of the Indenture applicable to such Daily Rates and Daily Rate Periods or Weekly Rates and Weekly Rate Periods, as the case may be.

Commercial Paper Rate and Commercial Paper Rate Period. The Commercial Paper Rate Period for each Bond will be determined separately by the Remarketing Agent on or prior to the first day of such Commercial Paper Rate Period as being the Commercial Paper Rate Period which, in the judgment of the Remarketing Agent, will, with respect to each Bond, ultimately produce the lowest overall interest cost on the Bonds during the Commercial Paper Rate Period; provided that each Commercial Paper Rate Period will be from one day to 270 days in length, will begin on a Business Day and end on a day preceding a Business Day or the day preceding the Maturity Date. The Commercial Paper Rate for each Commercial Paper Rate Period will be

effective from and including the commencement date of such period and remain in effect to and including the last day thereof. Each such Commercial Paper Rate will be determined by the Remarketing Agent no later than 1:00 p.m., New York City time, on the first day of the Commercial Paper Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent, to enable the Remarketing Agent to sell such Bond on that day at a price equal to the principal amount thereof. If the Remarketing Agent has received notice of any conversion to a Term Rate Period, the remaining number of days prior to the Conversion Date or, if the Remarketing Agent has received notice of any conversion from a Commercial Paper Rate Period to a Daily or Weekly Rate Period, the length of each Commercial Paper Rate Period for each Bond will be determined by the Remarketing Agent to be either (i) that length of period that, as soon as possible, will enable the Commercial Paper Rate Periods for all Bonds to end on the day before the Conversion Date, or (ii) that length of period which, based on the Remarketing Agent's judgment, will best promote an orderly transition to the next Rate Period. If a Liquidity Facility is then in effect, no Commercial Paper Rate Period may be established which is longer than a period equal to the maximum number of days' interest coverage provided by such Liquidity Facility minus 15 days or which extends beyond the remaining term of such Liquidity Facility minus 15 days.

Daily Rate and Daily Rate Period. Daily Rate Periods will commence on a Business Day and will extend to, but not include, the next succeeding Business Day. The Daily Rate for each Daily Rate Period will be effective from and including the commencement date thereof and will remain in effect during that Daily Rate Period. Each such Daily Rate will be determined by the Remarketing Agent no later than 10:30 a.m., New York City time, on the Business Day which is the commencement date of the Daily Rate Period to which it relates.

Weekly Rate and Weekly Rate Period. Weekly Rate Periods will commence on Wednesday of each week and end on Tuesday of the following week, except that (i) in the case of a conversion to a Weekly Rate Period, the initial Weekly Rate Period for Bonds will commence on the Conversion Date and end on Tuesday of the following week; and (ii) in the case of a conversion from a Weekly Rate Period to a different Rate Period, the last Weekly Rate Period prior to conversion will end on the last day immediately preceding the Conversion Date. The Weekly Rate for each Weekly Rate Period will be effective from and including the commencement date of such period and will remain in effect through and including the last day thereof. Each such Weekly Rate will be determined by the Remarketing Agent no later than 10:00 a.m., New York City time, on the commencement date of the Weekly Rate Period to which it relates.

Term Rate and Term Rate Period. Term Rate Periods will commence either on a Conversion Date (including a conversion from a Term Rate Period to a Term Rate Period of a different duration) or, if then in a Term Rate Period, the commencement date of an immediately successive Term Rate Period of the same duration and extend to but not include either the commencement date of an immediately successive Term Rate Period (of whatever duration) or the Conversion Date on which an Auction, Daily, Weekly or Commercial Paper Rate Period becomes effective. The Term Rate for each Term Rate Period will be effective from and including the commencement date of such period and remain in effect through and including the last day thereof. Each such Term Rate will be determined by the Remarketing Agent not later than 12:00 noon, New York City time, on the Business Day immediately preceding the commencement date of such period. The duration of each successive Term Rate Period will be the same as the then current Term Rate Period until the Company elects to convert the Term Rate Period to an Auction, Daily, Weekly

or Commercial Paper Rate Period, or to a Term Rate Period of a different duration, all as provided in the Indenture.

Failure of Remarketing Agent to Set Rate. If the Remarketing Agent fails for any reason to determine the rate for any Rate Period, then the Bonds will bear such interest at the last effective rate established for such Rate Period, except as otherwise set forth in the Indenture.

Conversions

Conversions Between Rate Periods. At the option of the Company, the Bonds may be converted from one Rate Period to another, including a conversion from one Term Rate Period to another Term Rate Period of a different duration. The Conversion Date must be an Interest Payment Date for the Rate Period from which the conversion is to be made; provided, however, that (i) if the conversion is from a Term Rate Period to another Rate Period, including a Term Rate Period of a different duration, the Conversion Date must be limited to any Interest Payment Date upon which the Bonds are subject to optional redemption pursuant to the Indenture or the last Interest Payment Date of that Term Rate Period, as the case may be; (ii) if the conversion is from a Daily Rate Period to a Weekly Rate Period, or from a Weekly Rate Period to a Daily Rate Period, the Conversion Date may be any Wednesday, regardless of whether the Wednesday is an Interest Payment Date; and (iii) if the conversion is from a Commercial Paper Rate Period, the Conversion Date must be the last Interest Payment Date on which interest is payable for all Bonds bearing Commercial Paper Rates theretofore established; provided, however, that if the conversion is from a Commercial Paper Rate Period to a Daily or Weekly Rate Period, there may be more than one Conversion Date in accordance with the Indenture and in that case the Conversion Date with respect to each Bond must be an Interest Payment Date for such Bond.

Not fewer than 15 days prior to the Conversion Date in the case of conversions from Auction, Daily, Weekly and Commercial Paper Rate Periods, and not fewer than 30 days prior to the Conversion Date in the case of a conversion from a Term Rate Period, and not fewer than 30 days prior to the last Business Day before the commencement of a new Term Rate Period, the Trustee will mail by first class mail a written notice of the conversion or of the commencement of such new Term Rate Period to each holder stating: (i) in the case of a conversion, the type of Rate Period to which the conversion will be made and the Conversion Date, (ii) that the Bonds will be subject to mandatory tender for purchase on the Conversion Date or on the Business Day immediately succeeding the last day of a Term Rate Period, as the case may be, and the purchase price of the Bonds, and (iii) if the Bonds are no longer in book-entry form and are therefore in certificated form, information with respect to required delivery of bond certificates and payment of the purchase price pursuant to the Indenture.

Conditions Precedent to Conversions. Any conversion (i) from an Auction, Daily, Weekly or Commercial Paper Rate Period to a Term Rate Period, (ii) from a Term Rate Period to an Auction, Daily, Weekly or Commercial Paper Rate Period, or (iii) to a Term Rate Period from a Term Rate Period (on a date other than the date originally scheduled as the last Interest Payment Date of the then current Term Rate Period) will be subject to the condition that on or before the Conversion Date, the Company will have delivered to the Issuer, the Trustee, the Auction Agent, the Paying Agent, the Bond Insurer and the Remarketing Agent an Opinion of Bond Counsel to the

effect that the conversion is authorized under the Indenture and the Act and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

As a condition to any conversion from the Auction Rate Period to a Rate Period that provides for either optional or mandatory tender for purchase of Bonds prior to maturity, unless the Bond Insurer otherwise consents, a Liquidity Facility acceptable to the Bond Insurer must be delivered to the Trustee. The Liquidity Facility, if any, to be held by the Trustee after the Conversion Date must be sufficient to cover the principal of and accrued interest on the outstanding Bonds for the maximum Interest Period permitted for that particular Rate Period plus 15 days, and, if a Liquidity Facility is to be held by the Trustee after the conversion of the Bonds to a Term Rate Period, that Liquidity Facility must also extend for the entire Term Rate Period plus 15 days. If a Liquidity Facility is in effect and the purchase price of the Bonds under the Indenture includes any premium, such conversion will be subject to the condition that the Trustee will have confirmed prior to mailing notice to the holders of such conversion that the Trustee is entitled to draw on that Liquidity Facility in an aggregate amount sufficient to pay the applicable purchase price (including such premium). Notwithstanding anything in the foregoing, if an Event of Default involving a payment default on the part of the Company has occurred and is continuing, the Bond Insurer will succeed to the rights of the Company to request or direct a change in the Rate Period, provided that such payment default has occurred and is continuing for a period of 35 days from the date of such payment default.

Failure of Conversion. If for any reason a condition precedent to a conversion of the Bonds is not met, the conversion will not be effective (although any mandatory tender pursuant to the Indenture will be made on such date if the notice required under the Indenture has been sent to holders stating that the Bonds would be subject to mandatory purchase on that date), and the Bonds, except as otherwise provided and subject to the conditions set forth in the Indenture, generally will be converted to a Weekly Rate Period and bear interest at the Weekly Rate determined by the Remarketing Agent as of the date on which the conversion was to occur.

Optional Tenders

Purchase Price and Purchase Dates. The holders of Bonds bearing interest for a Daily or Weekly Rate Period may elect to have their Bonds or portions thereof purchased at a purchase price equal to 100% of the principal amount of such Bonds (or portions thereof), plus any interest accrued from the immediately preceding Interest Payment Date and unpaid. There is no optional tender right while the Bonds are in a Commercial Paper Rate, Term Rate or Auction Rate Period.

Daily Rate. Bonds bearing interest at Daily Rates may be tendered for purchase at a price payable in immediately available funds on any Business Day, upon telephonic or electronic notice of tender given not later than 11:00 a.m., New York City time, on the purchase date to the Paying Agent. Any telephonic notice must be promptly confirmed by the holder to the Paying Agent in writing.

Weekly Rate. Bonds bearing interest at Weekly Rates may be tendered for purchase at a price payable in immediately available funds on any Business Day, upon delivery of written or electronic notice of tender to the Paying Agent not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven days prior to the purchase date.

Notice of Tender. When a book-entry-only system is in effect, a Beneficial Owner through its Direct Participant of that book-entry-only system may tender its interest in a Bond (or portion of Bond) by delivering notice, in the manner and by the time set forth above, to the Paying Agent stating the principal amount of the Bond (or portion of Bond being tendered), payment instructions for the purchase price and the purchase date. The Beneficial Owner will effect delivery of such Bonds by causing such Direct Participant to transfer its interest in the Bonds equal to such Beneficial Owner's interest on the records of DTC to the participant account of the Paying Agent with DTC. When a book-entry-only system is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering a notice, in the manner and by the time set forth above, to the Paying Agent which states (A) the principal amount of the Bond or Bonds to which the notice relates, (B) that the holder irrevocably demands purchase of such Bond or Bonds or a specified portion thereof in an amount equal to the lowest denomination then authorized or an integral multiple of such lowest denomination, (C) the date on which such Bond or portion is to be purchased, and (D) payment instructions with respect to the purchase price.

Mandatory Tenders

Commercial Paper Rate Periods. Each Bond bearing interest at a Commercial Paper Rate will be subject to mandatory tender for purchase, on the Interest Payment Date applicable to such Bond, at a purchase price equal to 100% of the principal amount thereof, without premium.

Conversion Dates. On any Conversion Date (other than a Conversion Date from a Daily Rate Period to a Weekly Rate Period or from a Weekly Rate Period to a Daily Rate Period), the Bonds will be subject to mandatory tender for purchase on such Conversion Date at a purchase price equal to 100% of the principal amount thereof or, in the case of Bonds bearing interest at a Term Rate which are tendered on a day on which those Bonds are subject to optional redemption at a redemption price of more than 100% of the principal amount redeemed, at a purchase price equal to that redemption price.

Term Rate Periods. On the Business Day immediately succeeding the last day of each Term Rate Period, the Bonds will be subject to mandatory tender for purchase on such date at a purchase price equal to 100% of the principal amount thereof.

Notices of Mandatory Tenders. Not fewer than 15 days prior to the Conversion Date in the case of conversions from Auction, Daily, Weekly and Commercial Paper Rate Periods, and not fewer than 30 days prior to the Conversion Date in the case of a conversion from a Term Rate Period and not fewer than 30 days prior to the last Business Day before the commencement of a new Term Rate Period, the Trustee will mail by first class mail a written notice to each holder, setting forth those matters required by the Indenture, including a statement that the Bonds will be subject to mandatory purchase on the Conversion Date or on the Business Day immediately succeeding the last day of the current Term Rate Period. No notice will be given in connection with the mandatory purchase of a Bond bearing interest at a Commercial Paper Rate on an Interest Payment Date applicable to such Bond.

Remarketing and Purchase of Tendered Bonds

The Indenture provides that, unless otherwise instructed by the Company, the Remarketing Agent will offer for sale and use its best efforts to find purchasers for Bonds for which notice of tender has been received or which are subject to mandatory tender for purchase. The Remarketing Agent will not sell any Bond as to which a notice of conversion from one type of Rate Period to another has been given by the Trustee, unless the Remarketing Agent has advised the person to whom the sale is made of the conversion. There will be no purchase of Bonds if an acceleration has been declared under the Indenture due to any Event of Default described under "THE INDENTURES – Events of Default," and there will be no remarketing of Bonds if there has occurred and is continuing an Event of Default or a Default under the Indenture, except in the sole discretion of the Remarketing Agent.

The purchase price of Bonds tendered for purchase will be paid by the Paying Agent from the following funds in the priority indicated: (i) proceeds of the remarketing of such Bonds by the Remarketing Agent to persons other than the Company, its affiliates or the Issuer, (ii) proceeds of the Liquidity Facility, if any, and (iii) proceeds of the remarketing of such Bonds by the Remarketing Agent to the Company, its affiliates or the Issuer.

Payment of Purchase Price

When a book-entry-only system is in effect, the requirement for physical delivery of the Bonds will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Paying Agent.

When a book-entry-only system is not in effect, all Bonds to be purchased on any date must be delivered to the Principal Office of the Paying Agent at or before (i) 12:00 noon, New York City time, on the purchase date in the case of Bonds accruing interest at Auction or Weekly Rates; (ii) 1:00 p.m., New York City time, on the purchase date in the case of Bonds bearing interest at Daily or Commercial Paper Rates; or (iii) 3:00 p.m., New York City time, on the purchase date in the case of Bonds bearing interest at a Term Rate. If the holder of any Bond (or portion thereof) that is subject to purchase fails to deliver such Bond to the Paying Agent for purchase on the purchase date, and if the Paying Agent is in receipt of the purchase price, the Bond will be purchased on the day fixed for purchase and ownership of such Bond (or portion thereof) will be transferred to the purchaser. If on the purchase date the Paying Agent is in receipt of the purchase price for all Bonds to be purchased on that purchase date, the holder of any such Bond will have no further rights thereunder except the right to receive the purchase price thereof and, if the purchase date coincides with an Interest Payment Date and if such holder was the holder of the Bond on the Regular Record Date pertaining to the Interest Payment Date, such rights as the holder may have to interest accrued to and unpaid on such Interest Payment Date.

Redemption

Optional Redemption. The Bonds will be subject to optional redemption by the Issuer at the direction of the Company, in whole or in part, as follows:

(i) During any Auction, Daily or Weekly Rate Period, on any Interest Payment Date, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

(ii) During any Commercial Paper Rate Period for a Bond, on the Interest Payment Date for that Bond, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

(iii) During a Term Rate Period, on any date which occurs on or after the first day of the optional redemption period, and at the redemption prices, expressed as a percentage of the principal amount being redeemed, plus accrued and unpaid interest, if any, to the redemption date, as follows:

Length of Term Rate Period	First Day of Optional Redemption Period	Redemption Price
More than 15 years	Tenth anniversary of commencement of Term Rate Period	100%
More than 10, but not more than 15 years	Eighth anniversary of commencement of Term Rate Period	100%
More than 5, but not more than 10 years	Fifth anniversary of commencement of Term Rate Period	100%
5 years or less	Non-callable	Non-callable

If at the time of the Company's notice to the Trustee of a conversion to a Term Rate Period (including a conversion from a Term Rate Period to a Term Rate Period of a different duration), the Company satisfies certain conditions, including provision of an Opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the date of such conversion.

Extraordinary Optional Redemption During a Term Rate Period. During a Term Rate Period, the Bonds are subject to redemption by the Issuer in whole at a redemption price of 100% of the principal amount redeemed, plus accrued and unpaid interest to the redemption date 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 Indenture.

(a) The Project Facilities or the Generating Station are 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 is 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, the Loan Agreement becomes void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed in the Loan Agreement.

(d) Unreasonable burdens or excessive liabilities are 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 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 enters a judgment, order or decree, or takes 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.

Mandatory Redemption Upon a Determination of Taxability. The Bonds are subject to mandatory redemption by the Issuer at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, at the earliest practicable date selected by the Trustee, after consultation with the Company, but in no event later than 180 days following the receipt by the Trustee of notification of a Determination of Taxability, as defined below. Such redemption will be either in whole or, if in the Opinion of Bond Counsel the Determination of Taxability will not apply to Bonds remaining outstanding after such redemption, in part.

A "Determination of Taxability" means written notice from the Company of the occurrence of a final decision, ruling or technical advice by any federal judicial or administrative authority to the effect that, as a result of a failure by the Company to observe or perform any covenant, agreement or obligation on its part to be observed or performed under the Loan Agreement or the inaccuracy of any representation made by the Company in the Loan Agreement, interest on any Bond is or was includable in the gross income of the owner of that Bond for federal income tax purposes, other than an owner who is a "substantial user" of the Project or a "related person" as those terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the *"Code"*); provided that, no decision by any court or decision, ruling or technical advice by any administrative authority will be considered final (a) unless the owner involved in the proceeding or action giving rise to such decision, ruling or technical advice (i) gives the Company and the Trustee prompt notice of the commencement thereof and (ii) offers the Company the opportunity to control the contest thereof, provided that the Company has agreed to bear all expenses in connection therewith and to indemnify the owner against all liabilities in connection therewith, and (b) until the expiration of all periods for judicial review or appeal. A Determination of Taxability will not result from the inclusion of interest on any Bond in the computation of the alternative minimum tax imposed by Section 55 of the Code, the branch profits tax on foreign corporations imposed by Section 884 of the Code or the tax imposed on net excess passive income of certain S corporations under Section 1375 of the Code.

If the Indenture has been released in accordance with its terms prior to the occurrence of a Determination of Taxability, the Bonds will not be subject to mandatory redemption.

Notice of Redemption. The Trustee will give notice of the redemption on behalf of the Issuer by mailing a copy of the redemption notice by first class mail, postage prepaid, at least 30 days but not more than 90 days prior to the redemption date, to the owner of each Bond subject to redemption in whole or in part and to the Auction Agent and the Bond Insurer. Failure to receive any such notice, or any defect therein in respect of any Bond, will not affect the validity of the redemption of any Bond. If at the time of mailing of the notice of redemption there has not been deposited with the Trustee moneys sufficient to redeem all Bonds called for redemption, such notice may state that it is conditional, subject to the deposit of moneys sufficient for the redemption. If either (A) unconditional notice of redemption was mailed or (B) conditional notice was mailed and the moneys sufficient to redeem all Bonds on the redemption date have been deposited with the Trustee, then in either event, the Bonds and portions thereof called for redemption will become due and payable on the redemption date, and upon presentation and surrender thereof at the place or places specified in that notice, will be paid at the redemption price, plus interest accrued to the redemption date.

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, all notices of redemption will be sent only to Cede & Co., and delivery of notice of redemption to the Direct Participants, if any, will be solely the responsibility of DTC.

Book-Entry-Only System

Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Issuer, the Company, Bond Counsel and the Underwriter make no representation as to the accuracy of such information. See "THE BONDS – Auction Rate Period – *Depository*" for information about DTC and its procedures relating to Auction Rate Bonds.

The Depository Trust Company (*"DTC"*), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each series of Bonds, in the aggregate principal amount of such series, and will be deposited with DTC or its custodian.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants (*"Direct Participants"*) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (*"DTCC"*). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (*"Indirect Participants"*). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (*"Beneficial Owner"*) is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation

from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, the Issuer or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or Paying Agent, disbursement or such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner may give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and will effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds on DTC's records to the Paying Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Issuer or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

So long as Cede & Co., as nominee of DTC, is the registered owner of any of the Bonds, the Beneficial Owners of such Bonds will not receive or have the right to receive physical delivery of the Bonds, and references herein to the registered owners of such Bonds will mean Cede & Co. and will not mean the Beneficial Owners of such Bonds.

THE ISSUER, THE COMPANY, THE PAYING AGENT, THE REGISTRAR, THE UNDERWRITER AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF PRINCIPAL OF OR INTEREST AND PREMIUM, IF ANY, ON THE BONDS, (2) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS, OR (3) NOTICES OF REDEMPTION OR OTHER NOTICES SENT TO DTC OR ITS NOMINEE, CEDE & CO., AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SEC, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH PARTICIPANTS MAY BE OBTAINED FROM DTC.

THE ISSUER, THE COMPANY, THE PAYING AGENT, THE REGISTRAR, THE UNDERWRITER AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY SUCH DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY ANY PARTICIPANT OF ANY AMOUNT DUE TO THE BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (3) THE DELIVERY BY ANY

DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BONDHOLDERS; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

The book-entry-only system for registration of the ownership of the Bonds may be discontinued at any time if: (i) DTC determines to resign as securities depository for the Bonds; or (ii) the Company determines (and notifies the Issuer in writing of its determination and the Issuer provides 30 days' notice of such discontinuation to the Trustee and DTC) to discontinue the system of book-entry transfers through DTC (or through a successor securities depository). Upon occurrence of either such event, the Issuer may, at the request of the Company, attempt to establish a securities depository book-entry relationship with another securities depository. If the Issuer does not do so, or is unable to do so, and after the Issuer has notified DTC and upon surrender to the Trustee of the Bonds held by DTC, the Issuer will issue and the Trustee will authenticate and deliver the Bonds in registered certificate form in authorized denominations, at the expense of the Company, to such Persons, and in such maturities and principal amounts, as may be designated by DTC, but without any liability on the part of the Issuer, the Company or the Trustee for the accuracy of such designation. In any such event (unless the Issuer appoints a successor securities depository), the Bonds will be delivered in registered certificate form to such persons, and in such maturities and principal amounts, as may be designated by DTC, but without any liability on the part of the Issuer or the Trustee for the accuracy of such designation. Whenever DTC requests the Issuer or the Trustee to do so, the Issuer or the Trustee will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of certificates evidencing the Bonds.

Revision of Book-Entry-Only System; Replacement Bonds

In the event that the Issuer or the Trustee determines that DTC is incapable of discharging its responsibilities described in the Indenture and that it is in the best interest of the Beneficial Owners of the Bonds that they be able to obtain certificated Bonds, the Issuer or the Trustee will (i) appoint a successor Depository, qualified to act as such under Section 17A of the Securities Exchange Act of 1934, as amended, notify DTC and Participants, identified by DTC, of the appointment of such successor Depository and transfer one or more separate Bonds to such successor Depository or (ii) notify DTC and Participants, identified by DTC, of the availability through DTC of Bonds and transfer one or more separate Bonds to Participants, identified by DTC, having Bonds credited to their DTC accounts. In such event, the Bonds will no longer be restricted to being registered in the registration books of the Trustee in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor Depository, or its nominee, or in whatever name or names Bondholders transferring or exchanging Bonds designate, in accordance with the provisions of the Indenture.

Upon the written consent of 100% of the Beneficial Owners of the Bonds, the Trustee will withdraw the Bonds from DTC, and authenticate and deliver Bonds fully registered to the assignees of DTC or its nominee. If the request for such withdrawal is not the result of any Issuer action or inaction, such withdrawal, authentication and delivery will be at the cost and

expense (including costs of printing, preparing and delivering such Bonds) of the persons requesting such withdrawal, authentication and delivery.

In the event that the book-entry-only system is discontinued, the following provisions will apply. The Bonds may be issued in Authorized Denominations. Bonds may be transferred or exchanged in Authorized Denominations upon surrender of such Bonds at the principal office of the Trustee, accompanied by an assignment satisfactory to the Trustee, duly executed by the Owner or the Owner's duly authorized attorney-in-fact. Neither the Issuer nor the Trustee will be required to make any such transfer or exchange of any Bond during the period beginning at the opening of business 15 days immediately preceding the mailing of a notice of Bonds selected for redemption and ending at the close of business on the day of such mailing, or, with respect to a Bond, after such Bond or any portion thereof has been selected for redemption. The Issuer or the Trustee may make a charge to the Owner for every transfer or exchange of a Bond sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such transfer or exchange, and may demand that such charge be paid before any new Bond is delivered.

Insurance Agreement with Company

The following summarizes certain provisions of the Insurance Agreement, to which reference is made for the detailed provisions thereof.

The Bond Insurer has agreed to issue the Bond Insurance Policies pursuant to the Insurance Agreement. Under the Insurance Agreement, the Company is obligated to reimburse the Bond Insurer, immediately and unconditionally upon demand, for all payments made by the Bond Insurer under the terms of the Bond Insurance Policies. The Company is also obligated to comply with certain financial covenants specified in the Insurance Agreement. The Company may not, without the prior written consent of the Bond Insurer, directly or indirectly, create any Lien (as defined in the Insurance Agreement) upon any of its property or assets, except as permitted thereunder; provided, that the Company may create a Lien on any of its property or assets to secure indebtedness so long as concurrently with creating such Lien it causes the Company's obligations under the Insurance Agreement to be secured by such property or assets on a parity with such indebtedness. The Insurance Agreement includes certain events of default, including the failure of the Company to pay amounts owed thereunder to the Bond Insurer and certain breaches by the Company of representations and warranties set forth therein. If any such event of default should occur and be continuing, the Bond Insurer may, among other things, notify the Trustee of such an event of default which would result in an "Event of Default" under the Loan Agreements and the Indentures. See "THE LOAN AGREEMENTS – Events of Default and Remedies" and "THE INDENTURES – Events of Default."

THE BOND INSURER

The information relating to XL Capital Assurance Inc. contained herein has been furnished solely by XL Capital Assurance Inc. No representation is made by the Underwriter, the Remarketing Agent, the Issuer, Bond Counsel or the Company as to the accuracy or adequacy of such information or as to the absence of material adverse changes in the condition of XL Capital Assurance Inc. subsequent to the date hereof. The following discussion does not

purport to be complete and is qualified in its entirety by reference to the Bond Insurance Policies, a specimen of the form of which is attached hereto as Appendix F. The Bond Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Bond Insurer and its affiliates set forth under this heading. In addition, the Bond Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

General

XL Capital Assurance Inc. (the "*Bond Insurer*" or "*XLCA*") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Bond Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore.

The Bond Insurer is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands exempted company ("*XL Capital Ltd*"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products and services to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The ordinary shares of XL Capital Ltd are publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against the Bond Insurer.**

The Bond Insurer was formerly known as The London Assurance of America Inc. ("*London*"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("*XL Re*") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition. Effective July 1, 2006, XL Re transferred its ownership in XLCA to XL Insurance (Bermuda) Ltd.

XL Capital Ltd announced on April 7, 2006 that Security Capital Assurance Ltd ("*SCA*"), a newly-created holding company for XL Capital Ltd's financial guaranty insurance and reinsurance businesses conducted through XLCA and XL Financial Assurance Ltd. ("*XLFA*"), had filed a registration statement on Form S-1 (the "*Registration Statement*") with the Securities and Exchange Commission (the "*Commission*") relating to a proposed initial public offering of a portion of its common shares. For further information, investors should refer to the Registration Statement.

Under the Registration Statement, a portion of SCA's shares will be issued and sold by SCA and a portion will be sold by SCA's parent, XL Insurance (Bermuda) Ltd, as selling shareholder. After the consummation of the offering, XL Capital Ltd is expected to beneficially own approximately 65% of SCA's outstanding shares.

SCA expects to use the proceeds it receives from the offering primarily for capital contributions to its financial guaranty subsidiaries to support future business growth. SCA intends to apply to have its shares listed on the New York Stock Exchange under the ticker symbol "SCA".

A copy of the Registration Statement is available on the Commission's website at www.sec.gov under Filings & Forms (EDGAR).

Reinsurance

The Bond Insurer has entered into a facultative quota share reinsurance agreement with XLFA, an insurance company organized under the laws of Bermuda, and an affiliate of the Bond Insurer. Pursuant to this reinsurance agreement, the Bond Insurer expects to cede up to 75% of its business to XLFA. The Bond Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Bond Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Bond Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 75% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Bond Insurance Policies.

Based on the audited financials of XLFA, as of December 31, 2005, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of $1,394,081,000, $704,007,000, $39,000,000 and $651,074,000, respectively, determined in accordance with generally accepted accounting principles in the United States ("*US GAAP*"). XLFA's insurance financial strength is rated "Aaa" by Moody's Investors Service, Inc. ("*Moody's*") and "AAA" by Standard & Poor's Ratings Services ("*S&P*") and Fitch Inc. ("*Fitch*"). In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The rating agencies have taken certain actions with respect to XL Capital Ltd and various insurance operating subsidiaries of XL Capital Ltd, as described below. On November 22, 2005, Moody's downgraded the senior debt rating of XL Capital Ltd from "A2" to "A3" and downgraded the other insurance financial strength ratings of various insurance operating subsidiaries of XL Capital Ltd (other than XLCA and XLFA) from "Aa2" to "Aa3". On November 28, 2005, S&P downgraded the senior debt rating of XL Capital Ltd from "A" to "A-" and downgraded the counterparty credit and financial strength ratings of various insurance operating subsidiaries of XL Capital Ltd (other than XLCA and XLFA) from "AA-" to "A+". On February 28, 2006, Fitch revised the long term issuer rating of XL Capital Ltd from "A-" to "A". On October 26, 2005, Fitch downgraded the Bond Insurer financial strength ratings of various insurance operating subsidiaries of XL Capital Ltd (other than XLCA and XLFA) from "AA" to "AA-".

The ratings of XLFA or any other member of the XL Capital Ltd group of companies are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, S&P or Fitch.

Notwithstanding the capital support provided to the Bond Insurer described in this section, the Bondholders will have direct recourse against the Bond Insurer only, and XLFA will not be directly liable to the Bondholders.

Financial Strength and Financial Enhancement Ratings of XLCA

The Bond Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch. In addition, XLCA has obtained a financial enhancement rating of "AAA" from S&P. These ratings reflect Moody's, S&P and Fitch's current assessment of the Bond Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, S&P or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Bonds. The Bond Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Capitalization of the Bond Insurer

Based on the audited financials of XLCA, as of December 31, 2005, XLCA had total assets, liabilities, and shareholder's equity of $953,706,000, $726,758,000, and $226,948,000, respectively, determined in accordance with U.S. GAAP.

Based on the audited statutory financial statements for XLCA as of December 31, 2005 filed with the State of New York Insurance Department, XLCA has total admitted assets of $328,231,000, total liabilities of $139,392,000, total capital and surplus of $188,839,000 and total contingency reserves of $13,031,000 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("*SAP*").

Incorporation by Reference of Financials

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Commission by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual

statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Bond Insurer

The Bond Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Bond Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Bond Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Bond Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE BOND INSURER, INCLUDING THE BOND INSURANCE POLICIES, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Bond Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

THE LOAN AGREEMENTS

Each Loan Agreement is separate from and will operate independently of the other Loan Agreement, and the occurrence of an Event of Default under one Loan Agreement will not, in and of itself, constitute an Event of Default under the other Loan Agreement. The Loan Agreements contains substantially identical terms and provisions. All references in this summary to the Bonds, the Issuer, the Indenture, the Loan Agreement and other defined terms should be read as referring separately to each series of the Bonds and the related Indenture, Loan Agreement and other defined terms. Reference is made to each Loan Agreement for the detailed provisions thereof.

Loan of Proceeds

The Loan Agreement provides for the refinancing by the Issuer of the Project, construction of which has been completed. Under the Loan Agreement, the Issuer will loan the proceeds of the Bonds to the Company to be used to pay a portion of the cost of redeeming the Refunded Bonds. See "APPLICATION OF PROCEEDS."

Loan Payments

The Company is obligated to make Loan Payments under the Loan Agreement which correspond, as to time, and are equal in amount, to the amount then payable as principal of and premium, if any, and interest on the Bonds. All payments under the Loan Agreement related to the Loan will be assigned to the Trustee, and the Company will make such payments directly to the Trustee for the account of the Issuer and for deposit in the Bond Fund created under the Indenture.

Obligation to Purchase Bonds

The Company will agree to pay or cause to be paid to the Trustee or the Paying Agent, on or before each day on which 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 Bonds tendered for purchase on such dates pursuant to the Indenture; provided, however, that the obligation of the Company to make any such payment will be reduced by the amount of (A) moneys paid by the Remarketing Agent as proceeds of the remarketing of such 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.

Term of Loan Agreement

The Loan Agreement will remain in full force and effect until such time as (i) all of the Bonds are fully paid (or provision has been made for such payment) and the Indenture has been released pursuant to the terms thereof and (ii) all other sums payable by the Company under the Loan Agreement have been paid.

Maintenance and Modification

During the term of the Loan Agreement, the Company will use its best efforts to keep and maintain the Project in good repair and good operating condition so that the Project will continue to constitute Pollution Control Facilities (as defined in the Loan Agreement) for the purposes of the operation thereof.

Subject to certain conditions, the Company has the right, from time to time, to remodel the Project or make additions, modifications and improvements thereto, the cost of which must be paid by the Company. The Company also has the right, subject to certain conditions, to substitute or remove any portion of the Project.

Maintenance of Existence

The Company will agree that during the term of the Loan 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 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 under the Loan Agreement and, if not organized under the laws of Kentucky, is qualified to do business in the State.

Tax Covenant

The Company will covenant and represent in the Loan Agreement that it has taken and caused to be taken and will take and cause to be taken all actions that may be required of it for the interest on the Bonds to be and remain excluded from the gross income of the owners thereof for federal income tax purposes, and that it has not taken or permitted to be taken on its behalf, and 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.

Assignment by Company

Notwithstanding any other provisions of the Loan Agreement, the Loan 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 Bonds for federal income tax purposes;

(b) the Company must, within 30 days after the 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; and

(c) Any assignment from the Company may not materially impair fulfillment of the Project Purposes to be accomplished by operation of the Project as provided in the Loan Agreement.

Events of Default and Remedies

The Loan Agreement provides that the occurrence of each of the following events will constitute an "event of default":

(a) The occurrence of an event of default described in paragraphs (a), (b), (c) or (d) under "THE INDENTURES--Events of Default";

(b) Failure by the Company to observe and perform any other agreement, term or condition contained in the Loan Agreement, other than a failure as has resulted in an event of default described in (a) above, which failure continues for a period of 90 days after notice by the Issuer or the Trustee, or for such longer period as the Issuer and the Trustee agree to in writing; provided, that such failure will 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

the initial 90 day cure period 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; and

(d) The occurrence of certain voluntary or involuntary events of bankruptcy, reorganization or receivership with respect to the Company.

A failure by the Company described in paragraph (b) above will not be a default if it occurs by reason of certain events of "force majeure" specified in the Loan Agreement not reasonably within the control of the Company.

Whenever any event of default under the Loan Agreement has happened and is subsisting, either or both of the following remedial steps may be taken by the Issuer or the Trustee:

(a) 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) Pursue all remedies existing at law or in equity to recover all amounts then due and thereafter to become due under the Loan Agreement or to enforce performance and observance of any other obligation or agreement of the Company under the Loan Agreement.

Any amounts collected pursuant to action taken upon the happening of an event of default will be paid into the Bond Fund and applied pursuant to the Indenture.

Amendment to the Loan Agreement

The Indenture provides that the Loan Agreement may be amended without the consent of or notice to the holders of the Bonds only as may be required (i) by the provisions of the Loan Agreement or the Indenture, (ii) for the purpose of curing any ambiguity, inconsistency or formal defect or omission therein, (iii) in connection with an amendment of the Indenture not requiring the consent of holders, or (iv) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the holders of the Bonds. The Loan Agreement may be amended, but only with the consent of the holders of all of the outstanding Bonds, to change the amounts or times as of which Loan Payments under the Loan Agreement are required to be made. Any other amendments to the Loan Agreement may be made only with the written approval or consent of the holders of not less than a majority in aggregate principal amount of the Bonds outstanding. No amendment to the Loan Agreement will be effective without the consent of the Bond Insurer (such consent not to be unreasonably denied).

Before the Issuer and the Trustee may consent to any amendment to the Loan Agreement, there must be delivered to the Trustee an Opinion of Bond Counsel stating that such amendment is authorized or permitted by the Act and is authorized under the Indenture, that such amendment will, upon the execution and delivery thereof, be valid and binding in accordance with

its terms, and that such amendment will not adversely affect the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

THE INDENTURES

Each Indenture is separate from and will operate independently of the other Indenture and the occurrence of an Event of Default under one Indenture will not, in and of itself, constitute an Event of Default under the other Indenture. The Indentures contains substantially identical terms and provisions. All references in this summary to the Bonds, the Issuer, the Indenture, the Loan Agreement, the Bond Insurance Policy and other defined terms should be read as referring separately to each series of the Bonds and the related Indenture, Loan Agreement, Bond Insurance Policy and other defined terms. Reference is made to each Indenture for the detailed provisions thereof.

Pledge of Revenues

Pursuant to the Indenture, all right, title and interest of the Issuer in and to the "Revenues" (as defined below) and under the Loan Agreement (except for certain rights of the Issuer), will be pledged or assigned to the Trustee to secure the payment of the principal or redemption price of and interest on the Bonds.

"Revenues" are defined to mean: (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 Bond Fund, (c) any moneys and investments in the 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 Rebate Fund or the Bond Purchase Fund as those terms are defined in the Indenture.

Application of Proceeds

The proceeds from the initial sale of the Bonds will be deposited in the Refunding Fund, established with the Trustee, to refinance the Project and, together with the proceeds of the investment thereof and other moneys provided by the Company, will be applied to refund and redeem the Refunded Bonds. See "APPLICATION OF PROCEEDS."

Bond Fund

A Bond Fund will be established with the Issuer and maintained by the Trustee as a trust fund under the Indenture. The amounts with respect to the payment of principal of and premium, if any, and interest on the Bonds derived under the Loan Agreement and certain other amounts specified in the Indenture will be deposited in the Bond Fund. While the Bonds are outstanding, moneys in the Bond Fund will be used solely for the payment of the principal or redemption price of and interest on the Bonds as they become due on any Interest Payment Date or at stated maturity, by redemption or upon acceleration.

Bond Purchase Fund

A Bond Purchase Fund will be established and maintained by the Paying Agent for the deposit of amounts to be used to pay the purchase price of Bonds. Moneys in the Bond Purchase Fund will be used solely for the payment of the purchase price of Bonds. Moneys in the Bond Purchase Fund will not be pledged to the payment of the principal of or interest or any premium on the Bonds and will not be invested.

Investments

Any moneys held as a part of the Refunding Fund, the Bond Fund and the Rebate Fund will be invested and reinvested by the Trustee as provided in the Indenture. Any such investments will be held by or under the control of the Trustee and will be deemed at all times a part of the respective Fund.

Events of Default

So long as the Bond Insurance Policy is in effect, the Bond Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders and the Trustee for the benefit of the Bondholders, including, without limitation: (i) the right to accelerate the principal of the Bonds and (ii) the right to annul any declaration of acceleration, and the Bond Insurer also will be entitled to approve all waivers of events of default.

The Indenture provides that each of the following events will constitute an "Event of Default" thereunder:

(a) Payment of any interest on any Bond is not made when it becomes due and payable;

(b) Payment of the principal or redemption price of any Bond is not made when it becomes due and payable, whether at stated maturity, by redemption, by acceleration or otherwise;

(c) Payment of the purchase price of any Bond tendered for purchase pursuant to the provisions of the Indenture is not made when due and payable;

(d) Failure by the Issuer to observe or perform any other covenant, agreement or obligation on its part to be observed or performed contained in the Bonds or the Indenture (other than a failure described in paragraphs (a), (b) or (c) above), which failure has continued for a period of 90 days after written notice (or for such longer period as the Trustee may agree to in writing), by registered or certified mail, to the Issuer and the Company given by the Trustee, either in its discretion or at the written request of the holders of not less than 35% in aggregate principal amount of Bonds then outstanding; provided, that failure will not constitute an Event of Default so long as the Issuer institutes curative action within the applicable period and diligently pursues that action to completion within 150 days after the expiration of the initial cure period as determined above, or within such longer period as the Trustee may agree to in writing; or

(e) The occurrence and continuance of an event of default as described in paragraphs (b), (c) or (d) under "THE LOAN AGREEMENTS – Events of Default."

Remedies

Upon the occurrence and continuance of any Event of Default described under "Events of Default" above, (i) at the written direction of the Bond Insurer or (ii) upon the written request of the holders of not less than 35% in aggregate principal amount of Bonds then outstanding and with the written consent of the Bond Insurer, in either event, the Trustee, by written notice to the Issuer and the Company, must declare the principal of all Bonds then outstanding (if not then due and payable), and the accrued and unpaid interest thereon, to be due and payable immediately.

Interest on the Bonds will accrue at the rates per annum borne by the Bonds to the date determined by the Trustee for the tender of payment to the holders pursuant to that declaration; provided, that interest on any unpaid principal of Bonds outstanding will continue to accrue from the date determined by the Trustee for the tender of payment to the holders of those Bonds until that principal amount has been paid or made available to the Trustee for the benefit of the holders. The Trustee will give immediate written notice of such declaration by mail to the holders of all Bonds then outstanding.

The provisions above are subject to the condition that if at any time after declaration of acceleration and prior to the entry of a judgment in a court for enforcement (after an opportunity for hearing by the Issuer and the Company), all sums payable (except the principal of and interest on Bonds which have not reached their stated maturity dates but which are due and payable solely by reason of that declaration of acceleration), plus interest to the extent permitted by law on any overdue installments of interest at the rate then borne by the Bonds, have been duly paid or provision therefor having been made by deposit with the Trustee or Paying Agent and all existing Events of Default have been cured, then such payment or provision for payment will constitute an automatic waiver of the Event of Default and its consequences and will constitute an automatic rescission and annulment of that declaration.

If an Event of Default occurs and is continuing, the Trustee, before or after the principal of the Bonds becomes immediately due and payable, may pursue any available remedy to enforce the payment of principal of, premium, if any, and interest on the Bonds or the observance and performance of any other covenant, agreement or obligation under the Indenture, the Loan Agreement or any other instrument providing security for the Bonds. If, upon the occurrence and continuance of an Event of Default, the Trustee is directed so to do by the Bond Insurer or requested so to do by the holders of at least 35% in aggregate principal amount of Bonds outstanding and with the written consent of the Bond Insurer, the Trustee will be required to exercise any rights and powers conferred by, and subject to, the Indenture.

The Bond Insurer will have the right or, with the consent of the Bond Insurer, the holders of a majority in aggregate principal amount of Bonds then outstanding will have the right at any time to direct, by an instrument or document or instruments or documents in writing executed and delivered to the Trustee, the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or any other proceedings thereunder; provided, that (i) any direction may not be other than in accordance with the provisions of law and of the Indenture, (ii) the Trustee must be indemnified as provided in the

Indenture, (iii) the Trustee may take any other action which it deems to be proper and which is not inconsistent with the direction and (iv) the Bond Insurer will have no rights in respect of remedies against the Bond Insurer.

All moneys received under the Indenture by the Trustee upon the occurrence of an Event of Default (provided that moneys received under the Bond Insurance Policy will be used only for payment of principal of and interest then due on the Bonds) will be applied first to the payment of the costs and expenses of the proceedings resulting in the collection of such money and of the fees and expenses incurred by the Trustee, and the balance of such money will be deposited in the Bond Fund and applied to the payment of the principal of and premium, if any, and interest on the Bonds in the manner and in the priorities set forth in the Indenture. The Trustee will have a first lien against the trust estate, payable prior to debt service on the Bonds, provided, however, that moneys received under the Bond Insurance Policy will be used only for payment of the principal of and interest then due on the Bonds.

No holder of any Bond will have any right to institute any suit, action or proceeding for the enforcement of the Indenture or for the exercise of any other remedy under the Indenture, unless (i) an Event of Default has occurred and is continuing and the Trustee has or is deemed to have notice of the same, (ii) the holders of not less than 35% in aggregate principal amount of the then outstanding Bonds have made written request to the Trustee and have afforded the Trustee reasonable opportunity to proceed to exercise the remedies, rights and powers granted by the Indenture or to institute a suit, action or proceeding in its own name and have offered to the Trustee satisfactory indemnity as provided in the Indenture, and (iii) the Trustee thereafter has failed or refused to exercise the remedies, rights and powers granted under the Indenture or to institute such action, suit or proceeding in its own name. Notwithstanding the foregoing, each holder of a Bond will have a right to enforce the payment of the principal of and premium, if any, and interest on any Bond held or owned by that holder at and after the maturity thereof at the place, from the sources and in the manner expressed in said Bond.

Supplemental Indentures

The Issuer and the Trustee may, with the consent of the Bond Insurer (such consent not to be unreasonably denied) and without the consent of, or notice to, any holder of a Bond, enter into supplemental indentures which will not, in the opinion of the Issuer and the Trustee, be inconsistent with the Indenture for any one or more of the following purposes:

(a) To cure any ambiguity, inconsistency or formal defect or omission in the Indenture;

(b) To grant to or confer upon the Trustee for the benefit of the holders of the Bonds any additional rights, remedies, powers or authority that lawfully may be granted to or conferred upon the holders or the Trustee;

(c) To assign additional revenues under the Indenture;

(d) To accept additional security and instruments and documents of further assurance with respect to the Project, including without limitation, first mortgage bonds of the Company;

(e) To add to the covenants, agreements and obligations of the Issuer under the Indenture, other covenants, agreements and obligations to be observed for the protection of the holders of the Bonds, or to surrender or limit any right, power or authority reserved to or conferred upon the Issuer in the Indenture;

(f) To evidence any succession to the Issuer and the assumption by its successor of the covenants, agreements and obligations of the Issuer under the Indenture, the Loan Agreement and the Bonds;

(g) To permit the exchange of Bonds, at the option of the holder or holders thereof, for coupon Bonds payable to bearer, if the Trustee has received an Opinion of Bond Counsel to the effect that the exchange would not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds outstanding;

(h) To permit the transfer of Bonds from one Depository to another, and the succession of Depositories, or the withdrawal of Bonds issued to a Depository for use in a book entry system and the issuance of replacement Bonds in fully registered form to others than a Depository;

(i) To permit the Trustee to comply with any obligations imposed upon it by law;

(j) To specify further the duties and responsibilities of, and to define further the relationship among, the Trustee, the Registrar, the Bond Insurer, the Auction Agent, the Remarketing Agent and any authenticating agents or Paying Agents;

(k) To achieve compliance of the Indenture with any applicable federal securities or tax law;

(l) To make amendments to the provisions of the Indenture relating to arbitrage matters under Section 148(f) of the Code, if, in the opinion of Bond Counsel, those amendments would not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds outstanding;

(m) To make any amendments appropriate or necessary to provide for or facilitate the delivery of any Liquidity Facility;

(n) Prior to, or concurrently with, the conversion of the Bonds from a Daily, Weekly, Commercial Paper, or Term Rate Period to an Auction Rate Period, to make any amendments appropriate or necessary with respect to the Auction Rate Procedures and any definitions or provisions in the Indenture or exhibits thereto in order to provide for or facilitate the marketability of Auction Rate Bonds; and

(o) To permit any other amendment which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the holders of the Bonds.

Exclusive of such supplemental indentures, the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding, with the written consent of the Bond Insurer (such consent not to be unreasonably denied) and, if required by the Indenture, of the

Company, will have the right to consent to and approve any supplemental indenture, except that no supplemental indenture will permit:

(a) An extension of the maturity of the principal of or the date for payment of interest on any Bond, a reduction in the principal amount of any Bond or the rate of interest or premium thereon, a reduction in the purchase price of any Bond or an extension of the date for payment of the purchase price of any Bond without the consent of the holder of each Bond so affected; or

(b) The creation of a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or a reduction in the aggregate principal amount of the Bonds required for consent to a supplemental indenture, without the consent of the holders of all of the Bonds then outstanding.

Any supplemental indenture which affects the rights or obligations of the Company requires the written consent of the Company. Before the Issuer and the Trustee may enter into any supplemental indenture, there must be delivered to the Trustee an Opinion of Bond Counsel stating that such supplemental indenture is authorized or permitted by the Act and is authorized under the Indenture, that such supplemental indenture will, upon the execution and delivery thereof, be valid and binding in accordance with its terms, and that such supplemental indenture will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

Discharge of Indenture

The lien created by the Indenture will be discharged when the Issuer pays or causes to be paid, or if there otherwise is paid, to or for the holders of the Bonds the principal, premium, if any, and interest due or to become due thereon and provision is also made for the payment of all other sums payable pursuant to the provisions of the Indenture and the Loan Agreement.

All of the Bonds will be deemed to have been paid and discharged within the meaning of the Indenture if:

(a) The Trustee as paying agent and any Paying Agents have received, in trust for and irrevocably committed thereto, sufficient moneys, or

(b) The Trustee has received, in trust for and irrevocably committed thereto, noncallable and nonprepayable Government Obligations which are certified by an independent public accounting firm of national reputation (with a copy of the certification being delivered to the Rating Agencies) to be of such maturities or redemption dates and interest payment dates, and to bear such interest as will be sufficient together with moneys referred to in (a) above, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, for the payment of all principal of and premium, if any, and interest on such Bonds (interest will be calculated at the maximum interest rate permitted to be borne by the Bonds pursuant to the Indenture unless the Bonds are in a Term Rate Period and the Bonds will mature or be redeemed on or prior to the last day of such Term Rate Period) at their maturity or redemption dates, as the case may be; provided, that if any of such Bonds are to be redeemed prior to maturity, notice of such redemption must have been duly given

or irrevocable provision satisfactory to the Trustee must have been duly made for the giving of such notice.

"Government Obligations" are defined to mean (a) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – (SLGs); (b) direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury itself; (c) securities of the Resolution Funding Corp. (REFCORP) provided that only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable; (d) pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P provided however that if the issue is only rated by S&P (*i.e.*, there is no Moody's rating) then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals; and (e) obligations issued by the following agencies which are backed by the full faith and credit of the U.S.: (i) U.S. Export-Import Bank (Eximbank) direct obligations or fully guaranteed certificates of beneficial ownership; (ii) Farmers Home Administration (FmHA); (iii) Federal Financing Bank; (iv) General Services Administration participation certificates; (v) U.S. Maritime Administration Guaranteed Title XI financing; and (vi) U.S. Department of Housing and Urban Development (HUD) project notes, local authority bonds, New Communities Debentures – U.S. government guaranteed debentures, and U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds.

Notwithstanding anything herein to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Bonds will remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Issuer to the registered bondholders will continue to exist and will run to the benefit of the Bond Insurer, and the Bond Insurer will be subrogated to the rights of such registered bondholders.

Liquidity Facility

The Company may deliver a Liquidity Facility to the Trustee on any Interest Payment Date upon which the Bonds are subject to optional redemption or, if the Bonds are in a Term Rate Period, the last Interest Payment Date for that Term Rate Period. Any such Liquidity Facility is required to provide for direct payments to or upon the order of the Trustee of the principal and purchase price of and interest on the Bonds when due. The Bond Insurer must consent in writing to the delivery of any Liquidity Facility or waive in writing any requirement to deliver a Liquidity Facility (such consent or waiver not to be unreasonably denied). Any Liquidity Facility will be subject to the prior written consent of the Bond Insurer (such consent not to be unreasonably denied).

Rights of Bond Insurer

The Indenture grants certain rights to the Bond Insurer. In addition to those rights, the Bond Insurer will, to the extent it makes payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy. If an Event of Default occurs, the Bond Insurer will have the right to institute any suit, action or proceeding at law or in equity under the same terms as a Bondholder may institute any action under the Indenture.

To the extent that the Indenture confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Bond Insurer is explicitly recognized under the Indenture as being a third-party beneficiary thereof and may enforce any such right, remedy or claim conferred, given or granted thereunder.

As long as the Bond Insurance Policy is in full force and effect with respect to the Bonds and the Bond Insurer is not in default thereunder: (a) any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer thereunder without the prior written consent of the Bond Insurer; (b) any action under the Indenture which requires the consent or approval of Bondholders will, in addition to such approval, be subject to the prior written consent of the Bond Insurer; (c) upon occurrence and continuance of an Event of Default, and subject to certain indemnification provisions, the Bond Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for the benefit of the Bondholders under the Indenture including, without limitation, (i) the right to accelerate the principal of the Bonds and (ii) the right to annul any declaration of acceleration, and the Bond Insurer will also be entitled to approve all waivers of Events of Default; and (d) the Bond Insurer will be entitled to receive copies of notices, certificates and other documents received by the Trustee pursuant to the Indenture and notification of any failure to provide any such document as required by the Indenture or the Loan Agreement.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal or interest due on the Bonds is paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Bonds will remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Issuer to the Bondholders will continue to exist and run to the benefit of the Bond Insurer, and the Bond Insurer will be subrogated to the rights of the Bondholders.

No Personal Liability of Issuer's Officials

No covenant, stipulation, obligation or agreement of the Issuer contained in the Indenture will be or be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of the Issuer in other than his or her official capacity. No official of the Issuer executing the Bonds, the Indenture or the Loan Agreement (or amendments or supplements to either) will be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof or the execution of the Indenture or the Loan Agreement (or amendments or supplements to either).

The Trustee

Except for any period during which an Event of Default, of which the Trustee has been notified or is deemed to have knowledge, has occurred and is continuing, the Trustee (i) will undertake to perform only the duties specifically set forth in the Indenture and (ii) in the absence of bad faith on its part, may rely conclusively upon the truth of the statements and the correctness of the opinions furnished to it pursuant to the Indenture. In case an Event of Default has occurred and is continuing (of which the Trustee has been notified or is deemed to have notice), the Trustee will exercise the rights and powers vested in it by the Indenture and will use the same degree of care and skill as a prudent person would use under the circumstances in the conduct of his or her own affairs. The Trustee will not be required to expend or risk its own funds in performing its duties under the Indenture and will be entitled to compensation and the reimbursement of its expenses.

The Trustee may resign at any time from the trusts created by the Indenture by giving written notice of the resignation to the Issuer, the Company, the Registrar, any Paying Agents, the Remarketing Agent, the Auction Agent, the Bond Insurer and any authenticating agents and by mailing written notice thereof to the holders of the Bonds. The resignation will take effect only upon the appointment of a successor Trustee acceptable to the Bond Insurer.

The Trustee may be removed at any time by the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding. The Trustee also may be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of the Indenture with respect to the duties and obligations of the Trustee by any court of competent jurisdiction upon the application of the Issuer, upon its own volition or at the request of the Company or the holders of not less than 35% in aggregate principal amount of the Bonds then outstanding under the Indenture. The removal will take effect only upon the appointment of a successor Trustee acceptable to the Bond Insurer.

Every successor Trustee appointed pursuant to the Indenture (i) must be a trust company or a bank having the powers of a trust company, (ii) must be duly authorized to exercise trust powers, (iii) must have a reported capital and surplus of not less than $75,000,000, (iv) so long as the Bonds are rated by Moody's, must be otherwise acceptable to Moody's, (v) so long as the Bonds are rated by S&P, must be acceptable to S&P, and (vi) must be acceptable to the Bond Insurer.

Remarketing Agent

The Remarketing Agent's principal office is at Morgan Stanley & Co. Incorporated, 1221 Avenue of the Americas, New York, New York 10020, Attention: Remarketing Coordinator. The Remarketing Agent will determine the Variable Rates and the Commercial Paper Rate Periods for the Bonds and will remarket Bonds subject to optional or mandatory tender. The Remarketing Agent must have a capitalization of at least $50,000,000 and be authorized by law to perform all the duties imposed upon it by the Indenture. Any successor Remarketing Agent must be rated at least Baa3/P-3 or otherwise be acceptable to Moody's and must have been approved in writing by the Bond Insurer (such approval not to be unreasonably denied).

If at any time the Remarketing Agent is unable or unwilling to act as a Remarketing Agent, the Remarketing Agent may resign upon the earlier to occur of (i) the twentieth day following receipt by the Company, the Issuer, the Trustee, the Auction Agent and the Paying Agent of written notice of resignation and (ii) the day of appointment by the Company of a successor Remarketing Agent pursuant to the Indenture and acceptance of such appointment by such successor Remarketing Agent. The Remarketing Agent may be removed at any time by the Company upon five days' written notice signed by the Company and delivered to the Remarketing Agent, the Issuer, the Trustee, the Bond Insurer, the Auction Agent and the Paying Agent.

TAX MATTERS

Federal Tax Matters

As described herein under the captions "INTRODUCTORY STATEMENT" and "APPLICATION OF PROCEEDS," the Bonds are issued to refund and redeem the entire outstanding principal amount of the Refunded Bonds, which each were originally issued to refund certain prior bonds originally issued to finance the cost of certain air and water pollution and solid waste disposal facilities under Section 103 of the Internal Revenue Code of 1954, as amended (the "1954 Code"). Section 103 of the 1954 Code provides generally that interest on an issue of industrial development bonds substantially all the proceeds of which are used to provide air and water pollution control or solid waste disposal facilities, or to refund such bonds, will be excludable from gross income for federal income tax purposes. Section 1313 of the Tax Reform Act of 1986 (the "1986 Tax Act") provides that the provisions of Section 103 of the 1954 Code will continue to apply to any bond the proceeds of which are used exclusively to refund a bond issued before August 16, 1986 (a "qualified bond") (or a bond which is part of a series of refundings of a qualified bond), provided that the refunding bonds satisfy the requirements of the 1954 Code as well as certain additional requirements imposed by the 1986 Tax Act and the Code.

Subject to continuing compliance with certain covenants and the accuracy of certain representations, in the opinion of Thompson Hine LLP, Bond Counsel, under existing law interest on the Bonds will be excludable from gross income for federal income tax purposes, except that during the period when any Bond is held by a person who is a "substantial user" of the Project Facilities or by a "related person," within the meaning of Section 103(b)(13) of the 1954 Code, interest on such Bond will be includable in the gross income of such person.

Bond Counsel is also of the opinion that under existing law, interest on the Bonds will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds is includable, pursuant to Section 55 of the Code, in adjusted current earnings in determining the alternative minimum taxable income of corporations for purposes of determining such corporations' liability for the alternative minimum tax.

In concluding that the interest on the Bonds will be excludable from gross income for federal income tax purposes, Bond Counsel will rely on (i) representations of the Issuer and the Company, (ii) certificates and certified proceedings of public officials furnished to Bond Counsel, (iii) certifications by officials of the Company, (iv) representations of the Company

with respect to the use of the proceeds of the Refunded Bonds and the bonds refunded by the Refunded Bonds, as well as certain material facts relating to the design, scope, function, use, cost and economic useful life of the Project Facilities, and (v) covenants of the Company with respect to the use of the proceeds of the Bonds.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations in order for the interest to be and continue to be so excluded from the date of issuance. Noncompliance with these requirements with respect to the Bonds could cause interest on the Bonds to be included in gross income for federal income tax purposes and to be subject to federal income tax retroactively to their date of issuance. The Company has agreed in the Loan Agreements for the Bonds to take such actions that may be required of it for the interest on the Bonds to be and remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. If interest on the Bonds does become includable in gross income, the Bonds are subject to mandatory redemption without premium. See "THE BONDS – Redemption – *Mandatory Redemption Upon a Determination of Taxability*."

Under the Code, interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to the branch profits tax imposed by Section 884 of the Code, and interest on the Bonds could be subject to the tax imposed by Section 1375 of the Code on excess net passive income of certain S corporations.

Under the Code, the receipt of interest excluded from gross income can have certain collateral federal income tax consequences, adversely affecting items of income, deductions, or credits for certain taxpayers, including financial institutions, property and casualty insurance companies, recipients of Social Security and Railroad Retirement benefits, taxpayers who are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income credit. The applicability and extent of these or other federal consequences will depend upon the particular tax status or other items of income and expense of the owner of the Bonds. Bond Counsel expresses no opinion regarding such consequences.

Purchasers of Bonds at other than their original issuance at the respective prices indicated on the cover should consult their own tax advisors regarding other tax considerations, such as the consequences of market discount.

Bond Counsel will express no opinion regarding federal tax consequences arising with regard to the Bonds other than the opinions referred to in the second and third paragraphs of this section.

From time to time, legislative proposals are pending in Congress that would, if enacted, alter or amend one or more of the federal tax matters referred to above or below in certain respects or would adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any of such proposals, either pending or that may be introduced, may be enacted and there can be no assurance that such proposals will not apply to the Bonds (and book entry interest in the Bonds).

State Tax Matters

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is excluded from gross income of the owners thereof for Kentucky income tax purposes and the Bonds are exempt from all ad valorem taxes in Kentucky. No opinion is expressed regarding taxation of interest on the Bonds under any other provision of Kentucky law.

The tax consequences arising with respect to the Bonds may be different under the applicable state and local tax laws of states other than Kentucky. Each purchaser of the Bonds should consult his or her tax advisor regarding the taxable status of the Bonds in a particular local jurisdiction other than Kentucky.

THE FOREGOING IS NOT INTENDED AS A DETAILED OR COMPREHENSIVE DESCRIPTION OF ALL POSSIBLE TAX CONSEQUENCES OF BUYING OR HOLDING THE BONDS. PERSONS CONSIDERING THE PURCHASE OF THE BONDS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE CONSEQUENCES OF BUYING OR HOLDING THE BONDS IN THEIR PARTICULAR CIRCUMSTANCES.

CONTINUING DISCLOSURE AGREEMENTS

The Company will enter into separate, but substantially identical, Continuing Disclosure Agreements relating to each series of the Bonds. All references in the summary below to the Bonds and the Continuing Disclosure Agreement and other defined terms should be read as referring separately to each series of the Bonds and the related Continuing Disclosure Agreement and other defined terms. Certain provisions of the Continuing Disclosure Agreements are described below. Reference is made to each Continuing Disclosure Agreement for the detailed provisions thereof.

The Company will agree, in a Continuing Disclosure Agreement (the "*Continuing Disclosure Agreement*") for the benefit of the holders and beneficial owners from time to time of the Bonds, in accordance with, and as the only obligated person with respect to the Bonds under, Rule 15c2-12 (the "*Rule*") of the Securities and Exchange Commission (the "*Commission*"), to provide or cause to be provided such financial information and operating data of the Company (collectively, "*Annual Information*"), audited financial statements and notices, in such manner, as may be required for purposes of paragraph (b)(5)(i) of the Rule, including specifically the following:

(a) To each nationally recognized municipal securities information repository designated from time to time by the Commission ("*NRMSIR*"), to any state information depository ("*SID*") and to the Trustee: Annual Information for each fiscal year of the Company, ending on or after December 31, 2006, not later than the 120th day of following the end of the fiscal year, consisting of (i) if the Company files reports with the Commission on Form 10-K or a successor form, such reports or (if the Company's direct or indirect parent files such reports with the Commission and such reports provide separate Annual Information with respect to the Company) such reports filed by the Company's direct or indirect parent, or (ii) if the Company no longer is required to file such reports on Form 10-K or a successor form, information concerning the Company's selected financial and operating data,

together with the Company's audited financial statements prepared in accordance with generally accepted accounting principles.

As described in Appendix A under "Available Information," the Company no longer is required to file reports on Form 10-K with the Commission. Therefore, clause (ii) above is currently applicable with respect to the Company. The Company will agree to provide, as "Annual Information" under the Continuing Disclosure Agreement, selected financial and operating data of the type included under the caption "The Company" in Appendix A to the Official Statement and in the Company's unaudited Condensed Financial Statements for the Quarter ended March 31, 2006 (included as part of Appendix A), together with the Company's audited financial statements.

The Company also will agree to file with the NRMSIR's, any SID and the Trustee unaudited quarterly financial statements (to the extent that such quarterly financial statements are otherwise available) not later than the 60th day following the end of each fiscal quarter of the Company (other than the last quarter of any fiscal year).

(b) To each NRMSIR or to the Municipal Securities Rulemaking Board ("*MSRB*"), and to any SID, in a timely manner, notice of:

(1) The occurrence of any of the following events, within the meaning of the Rule, with respect to the Bonds, if material:

(i) principal and interest payment delinquencies;

(ii) nonpayment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;

(vii) modifications to rights of holders or beneficial owners;

(viii) Bond calls for the Bonds;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Bonds; and

(xi) rating changes for the Bonds.

Although enumerated in the Rule, the events described in subparagraphs (iii) and (x) above currently are inapplicable with respect to the Bonds.

(2) The Company's failure to provide the Annual Information within the time specified above.

(3) The termination of the Continuing Disclosure Agreement.

The Continuing Disclosure Agreement may be amended, and any of its provisions may be waived, if such amendment or waiver is supported by a legal opinion of independent counsel who is expert in federal securities laws to the effect that such amendment or waiver would not, in and of itself, violate the Rule. If the amendment or waiver will materially impair the interests of Bondholders or beneficial owners, then the Trustee must also obtain the approval of the holders.

The Continuing Disclosure Agreement is solely for the benefit of the holders and beneficial owners from time to time of the Bonds. The exclusive remedy for any breach of the Continuing Disclosure Agreement is limited to a right of holders and beneficial owners to cause to be instituted and maintained, proceedings in equity to obtain the specific performance by the Company of its obligations under the Continuing Disclosure Agreement. Any individual holder or beneficial owner may institute and maintain, or cause to be instituted and maintained, such proceedings to require the Company to provide a pertinent filing if such a filing is due and has not been made. Any such proceedings to require the Company to perform any other obligation under the Continuing Disclosure Agreement (including any proceedings that contest the sufficiency of any pertinent filing) may be instituted and maintained only by the holders and beneficial owners of not less than 35% in principal amount of the Bonds then outstanding or their agent.

Any failure by the Company to comply with any provision of the Continuing Disclosure Agreement will not constitute a failure or a default, or an event of default, under the Loan Agreements or the Indentures.

The Continuing Disclosure Agreement will remain in effect only for such period that any of the Bonds are outstanding in accordance with their terms and the Company remains an obligated person with respect to the Bonds within the meaning of the Rule.

The Company has not previously entered into any continuing disclosure agreements for the purposes of the Rule.

The following NRMSIRs exist at this time: Bloomberg Municipal Repository, Skillman, New Jersey; DPC Data Inc., Fort Lee, New Jersey; and FT Interactive Data and Standard & Poor's Securities Evaluations, Inc., each of New York, New York. No SID has been designated by the Commonwealth of Kentucky.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Thompson Hine LLP, Bond Counsel. The form of such opinion is included as Appendix E hereto. In rendering the approving opinion as Bond Counsel, Thompson Hine LLP has relied upon the opinion of Stoll Keenon Ogden PLLC, special Kentucky

counsel, with respect to certain matters governed by Kentucky law. Certain legal matters in connection with the issuance of the Bonds will be passed upon for the Issuer by J.R. Schrand, Esq. County Attorney and Stoll Keenon Ogden PLLC, as special Kentucky counsel. Certain legal matters will be passed upon for the Company by Robert Lucas, Associate General Counsel of Duke Energy Corporation and Thompson Hine LLP, as counsel for the Company. Certain legal matters will be passed upon for the Bond Insurer by an Assistant General Counsel. Certain legal matters will be passed upon for the Underwriter by Squire, Sanders & Dempsey L.L.P. From time to time, Squire, Sanders & Dempsey L.L.P. has represented affiliates of the Company or its predecessors in various matters.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to such transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

The remedies available to the bondholders upon a default are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the federal bankruptcy code), the remedies may not be readily available or may be limited.

The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the constitutional powers of the Issuer, the State of Indiana and the United States of America and bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally, and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

These exceptions would encompass any exercise of federal, State or local police powers (including the police powers of the Issuer), in a manner consistent with the public health and welfare.

UNDERWRITING

Under the terms of a Bond Purchase Agreement, the Underwriter will agree, subject to the approval of certain legal matters by counsel and to certain other conditions, to purchase the Bonds from the Issuer at a price of $76,720,000 (representing 100% of the aggregate principal amount of the Bonds). The Company also will agree to pay the Underwriter $268,520 as an underwriting fee and to reimburse the Underwriter for certain expenses. The Underwriter will agree to purchase all of the Bonds, if any of the Bonds are purchased. After the Bonds are released for sale to the public, the offering price and other selling terms may from time to time be varied by the Underwriter, and such Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment accounts) and others at prices lower than the public offering price set forth on the cover page hereof.

The Company will agree to indemnify the Underwriter and the Issuer against certain liabilities, including certain liabilities under federal securities laws.

Morgan Stanley & Co. Incorporated also will act as a Broker-Dealer during the Auction Rate Period and will be compensated for its services as Broker-Dealer pursuant to the terms of the Broker-Dealer Agreement. Morgan Stanley & Co. Incorporated has been appointed to serve as Remarketing Agent and will be separately compensated by the Company pursuant to the terms of the Remarketing Agreement.

In the ordinary course of its business, the Underwriter and certain of its affiliates have engaged, and may in the future engage, in investment banking or other transactions with the Company and its affiliates.

This Official Statement has been duly authorized, executed and delivered by the Company.

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

By: /s/ Stephen De May
Assistant Treasurer

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APPENDIX A

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

The information contained herein as Appendix A to the Official Statement relates to and has been supplied by The Union Light, Heat and Power Company, doing business as Duke Energy Kentucky, Inc. (the "Company"). The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of the Company since the date hereof, or that the information contained, referred to or incorporated by reference in this Appendix A is correct as of any time subsequent to its date. The Issuer makes no representation or warranty as to the accuracy or completeness of the information contained or incorporated by reference in this Appendix A. Unless indicated otherwise, or the context otherwise requires, references in this Appendix A to "we," "us" and "our" or similar terms are to the Company.

THE COMPANY

The following information is furnished solely to provide limited introductory information about the Company and does not purport to be comprehensive. Such information is qualified in their entirety by reference to detailed information and financial statements appearing in the documents referred to or incorporated herein by reference or elsewhere in this Appendix A and, therefore, such information should be read together with this Official Statement. See "Available Information" and "Incorporation of Certain Documents by Reference" below and the Company's unaudited Condensed Financial Statements for the Quarter Ended March 31, 2006, included as part of this Appendix A.

The Company, a Kentucky corporation, is an electric and gas utility. We are primarily engaged in the generation of electric energy and in the transmission, distribution, and sale of electric energy and the sale and transportation of natural gas in Northern Kentucky. The area we serve covers approximately 500 square miles, has an estimated population of 345,000 people, and includes the cities of Covington, Florence and Newport in Kentucky.

The Company is a wholly-owned subsidiary of The Cincinnati Gas & Electric Company, doing business as Duke Energy Ohio, Inc. ("CG&E"). CG&E is a wholly-owned subsidiary of Cinergy Corp., which in turn is an indirect, wholly-owned subsidiary of Duke Energy Corporation.

Our principal executive offices are located at 139 East Fourth Street, Cincinnati, OH 45202. Our telephone number is (513) 421-9500.

Recent Developments

On January 25, 2006, the Company completed the acquisition of CG&E's approximately 69 percent ownership interest in the East Bend Station, located in Boone County, Kentucky, the Woodsdale Station, located in Butler County, Ohio, and one generating unit at the four-unit Miami Fort Station, located in Hamilton County, Ohio (totaling approximately 1,100 MWs of generating capacity), and associated transactions. In connection with the transfer of these assets, the Company assumed certain liabilities of CG&E, including, among other items, all payment,

performance, and other obligations of CG&E with respect to the bonds being refunded with the proceeds of the Bonds being offered by this Official Statement. See note 1(a) to the Company's unaudited Condensed Financial Statements for the Quarter ended March 31, 2006, included as part of this Appendix A and incorporated herein.

In May 2006, the Company filed an application for an increase in its base electric rates. The application, which seeks an increase of $67 million, or approximately 28 percent, was filed pursuant to the Kentucky Public Service Commission's 2003 Order approving the transfer of 1,100 MW of generating assets from CG&E to the Company, described above. In that Order, the Kentucky Public Service Commission required the Company to file a general rate application such that the effective date will be January 1, 2007. See note 6(b) to the Company's unaudited Condensed Financial Statements for the Quarter ended March 31, 2006, included as part of this Appendix A and incorporated herein, for a discussion of the electric rate case and the Company's gas base rate case filed in 2005.

SELECTED FINANCIAL INFORMATION

The following table shows selected financial information of the Company. The information as of December 2005 does not reflect the transfer of generating station assets by CG&E to the Company effective as of January 1, 2006, as described under "The Company – Recent Developments" above. The transfer of those assets is reflected in the information below as of March 31, 2006. This information is derived from our historical results and is qualified in its entirety by reference to the financial statements appearing in the documents incorporated herein by reference or elsewhere in this Appendix A. See "Incorporation of Certain Documents by Reference" below and the Company's unaudited Condensed Financial Statements for the Quarter ended March 31, 2006, included as part of this Appendix A.

Selected Income Information (in 000's)

	Quarter Ended March 31,		12 Months Ended December 31,		
	2006	2005			
	(unaudited)		2005	2004	2003
Operating Revenues	$128,802	$112,359	$388,127	$354,543	$332,153
Operating Income	$ 18,920	$ 10,350	$ 26,434	$ 33,380	$ 31,376
Interest Charges	$ 3,739	$ 1,745	$ 6,903	$ 5,179	$ 6,127
Net Income	$ 10,358	$ 6,195	$ 14,645	$ 18,638	$ 19,029

Capitalization

	Outstanding as of March 31, 2006 (unaudited)		Outstanding as of December 31, 2005	
	Amount (thousands)	% of Capitalization	Amount (thousands)	% of Capitalization
Total Debt(1)	$297,775	46.2%	$136,513	41.0%
Common Stock Equity	$346,672	53.8%	$196,459	59.0%
Total Capitalization	$644,447	100.0%	$332,972	100.0%

(1) Capital leases in the amount of $12,025 and $12,327 are included in the total debt numbers.

DISCLOSURE ABOUT FORWARD-LOOKING STATEMENTS

This Official Statement contains, refers to or incorporates by reference statements that do not directly or exclusively relate to historical facts. These types of statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. They represent our intentions, plans, expectations, assumptions and beliefs about future events. Forward-looking statements involve risks and uncertainties that may cause actual results to be materially different from the results predicted. Factors that could cause actual results to differ are often presented with forward-looking statements. In addition, other factors could cause actual results to differ materially from those indicated in any forward-looking statement. These include:

- Factors affecting operations, such as:
  - Unusual weather conditions;
  - Unscheduled generation outages;
  - Unusual maintenance or repairs;
  - Unanticipated changes in costs;
  - Environmental incidents; and
  - Electric transmission or gas pipeline system constraints.
- Legislative and regulatory initiatives and legal developments including costs of compliance with existing and future environmental requirements.
- Additional competition in electric or gas markets and continued industry consolidation.
- Financial or regulatory accounting principles.
- Changing market conditions and other factors related to physical energy and financial trading activities.
- The performance of projects undertaken and the success of efforts to invest in and develop new opportunities.
- Availability of, or cost of, capital.

- Employee workforce factors.
- Delays and other obstacles associated with mergers, acquisitions and investments in joint ventures.
- Costs and effects of legal and administrative proceedings, settlements, investigations and claims.

These and other factors are discussed in our reports previously filed with the Securities and Exchange Commission. We are not required to revise or update forward-looking statements (whether as a result of changes in actual results, changes in assumptions or other factors affecting the statements). Our forward-looking statements reflect our best beliefs as of the time they are made and may not be updated for subsequent developments.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements and financial statement schedule as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, incorporated in this Official Statement by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2005, have been audited by Deloitte and Touche LLP, an independent registered public accounting firm, as stated in their report dated February 17, 2006 relating to the financial statements and financial statement schedule of the Company (which report expresses an unqualified opinion on the Company's financial statements and includes an explanatory paragraph referring to the Company's adoption of Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" in 2005 and adoption of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," in 2003) which is incorporated herein by reference.

AVAILABLE INFORMATION

The Company previously filed reports and other information with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Certain information concerning directors and officers, their remuneration, and any material interest of such persons in transactions with the Company, as of particular dates, was disclosed in the Company's Annual Report on Form 10-K filed on March 2, 2006, with the Commission for the period ending December 31, 2005. Such reports and other information can be inspected and copied at the public reference facilities maintained by the Commission. The Commission maintains a Web site that contains reports, proxy and information statements and other information regarding issuers, such as the Company, that file electronically with the Commission and the address of such Web site is http://www.sec.gov. Copies of such material can also be obtained at prescribed rates from the Public Reference Section of the Commission at its principal office at 100 F Street, NE, Washington, D.C. 20549. Such material can also be inspected at the offices of the New York Stock Exchange.

As of May 8, 2006, the Company ceased to be subject to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act. The Company has discontinued filing reports and other information with the Commission under such sections.

The principal executive and business office of the Company is located at 139 East Fourth Street, Cincinnati, Ohio 45202 (telephone 513-421-9500).

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed by the Company with the Commission pursuant to the Exchange Act are hereby incorporated in this Official Statement by reference:

(a) Current Report on Form 8-K dated March 16, 2006;

(b) Current Report on Form 8-K dated January 31, 2006; and

(c) Financial Statements and Financial Statement Schedule as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, included in the Annual Report on Form 10-K for the year ended December 31, 2005.

The Company hereby undertakes to provide without charge to each person to whom a copy of this Official Statement has been delivered, upon the written or oral request of any such person, a copy of any or all of the documents referred to above which have been incorporated in this Official Statement by reference, other than exhibits to such documents. Requests for such copies should be directed to the Investor Relations Department, 526 S. Church Street, Charlotte, North Carolina 28202-1803, (telephone: 800-488-3853).

CONTINUING DISCLOSURE

The Company will enter into substantially identical Continuing Disclosure Agreements with respect to the Bonds under which the Company will agree to provide certain annual and quarterly financial information (to the extent such quarterly financial statements are otherwise available). The Company will agree under the Continuing Disclosure Agreements to provide, as "Annual Information" thereunder, selected financial and operating data of the type included under the caption "The Company" in this Appendix A and in the Company's unaudited Condensed Financial Statements for the Quarter ended March 31, 2006 (included as part of this Appendix A), together with the Company's audited financial statements. See "Continuing Disclosure Agreements" in this Official Statement. As noted above under "Available Information," the Company is no longer subject to the reporting requirements under Section 13(a) or 15(d) of the Exchange Act and therefore no longer files reports with the Commission.

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THE UNION LIGHT, HEAT AND POWER COMPANY

March 31, 2006

Condensed Financial Statements

(Unaudited)

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THE UNION LIGHT, HEAT AND POWER COMPANY
CONDENSED STATEMENTS OF INCOME

	Quarter Ended March 31	
	2006	2005
	(dollars in thousands) *(unaudited)*	
Operating Revenues		
Electric	$ 67,268	$ 54,584
Gas	61,534	57,775
Total Operating Revenues	128,802	112,359
Operating Expenses		
Fuel, emission allowances, and purchased power (Note 1(c))	24,435	-
Electricity purchased from parent company for resale (Note 1(c))	-	39,501
Gas purchased	45,301	40,199
Operation and maintenance	28,304	15,715
Depreciation	9,303	5,109
Taxes other than income taxes	2,539	1,485
Total Operating Expenses	109,882	102,009
Operating Income	18,920	10,350
Miscellaneous Income – Net	1,191	852
Interest Expense	3,739	1,745
Income Before Taxes	16,372	9,457
Income Taxes	6,014	3,262
Net Income	$ 10,358	$ 6,195

The accompanying notes are an integral part of these condensed financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY
CONDENSED BALANCE SHEETS

ASSETS	March 31 2006	December 31 2005
	(dollars in thousands) *(unaudited)*	
Current Assets		
Cash and cash equivalents	**$ 7,952**	$ 9,876
Receivables less accumulated provision for doubtful accounts	**28,111**	30,885
Accounts receivable from affiliated companies	**7,486**	6,567
Inventory	**19,905**	10,767
Prepayments and other	**8,347**	4,500
Total Current Assets	**71,801**	62,595
Property, Plant, and Equipment – at Cost		
Property, plant, and equipment	**1,403,585**	634,079
Accumulated depreciation	**577,257**	188,614
Net Property, Plant, and Equipment	**826,328**	445,465
Other Assets		
Regulatory assets	**8,662**	7,529
Intangible assets	**6,152**	-
Other	**3,519**	2,625
Total Other Assets	**18,333**	10,154
Total Assets	***$ 916,462***	$ 518,214

The accompanying notes are an integral part of these condensed financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY
CONDENSED BALANCE SHEETS

LIABILITIES AND SHAREHOLDER'S EQUITY

	March 31 2006	December 31 2005
	(dollars in thousands) (unaudited)	
Current Liabilities		
Accounts payable	**$ 20,733**	$ 26,206
Accounts payable to affiliated companies	**16,575**	26,815
Accrued taxes	**13,628**	6,769
Accrued interest	**2,867**	1,374
Notes payable to affiliated companies (Note 4)	**16,000**	29,777
Long-term debt due within one year	**1,251**	1,233
Other	**7,332**	8,965
Total Current Liabilities	**78,386**	101,139
Non-Current Liabilities		
Long-term debt	**280,524**	105,503
Deferred income taxes	**139,110**	52,800
Unamortized investment tax credits	**7,445**	2,373
Accrued pension and other postretirement benefit costs	**20,067**	19,354
Regulatory liabilities	**30,532**	29,038
Other	**13,726**	11,548
Total Non-Current Liabilities	**491,404**	220,616
Commitments and Contingencies		
Total Liabilities	**569,790**	321,755
Common Stock Equity		
Common stock – $15.00 par value; authorized shares – 1,000,000; outstanding shares – 585,333 at March 31, 2006, and December 31, 2005	**8,780**	8,780
Paid-in capital	**163,615**	23,760
Retained earnings	**176,600**	166,242
Accumulated other comprehensive loss	**(2,323)**	(2,323)
Total Common Stock Equity	**346,672**	196,459
Total Liabilities and Shareholder's Equity	**$ 916,462**	$ 518,214

The accompanying notes are an integral part of these condensed financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY
CONDENSED STATEMENTS OF CASH FLOWS

	Quarter Ended March 31	
	2006	2005
	(dollars in thousands) *(unaudited)*	
Operating Activities		
Net income	$ 10,358	$ 6,195
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,303	5,109
Deferred income taxes and investment tax credits – net	569	(397)
Change in net position of energy risk management activities	(39)	-
Allowance for equity funds used during construction	(80)	(116)
Regulatory asset/liability deferrals	(1,263)	1,143
Regulatory asset amortization	1,538	1,419
Accrued pension and other postretirement benefit costs	713	552
Cost of removal	(434)	(229)
Changes in current assets and current liabilities:		
Accounts and notes receivable	5,650	15,305
Inventory	7,541	4,449
Prepayments	2,096	142
Accounts payable	(15,713)	(5,984)
Accrued taxes and interest	8,352	4,352
Other assets	339	1,614
Other liabilities	(1,290)	(3,265)
Net cash provided by operating activities	27,640	30,289
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	(13,588)	(9,584)
Net change in intangible assets	(5,380)	-
Net cash used in investing activities	(18,968)	(9,584)
Financing Activities		
Change in short-term debt, including net affiliate notes	(123,852)	(15,595)
Issuance of long-term debt	113,558	-
Redemption of long-term debt	(302)	-
Net cash used in financing activities	(10,596)	(15,595)
Net increase (decrease) in cash and cash equivalents	(1,924)	5,110
Cash and cash equivalents at beginning of period	9,876	4,197
Cash and cash equivalents at end of period	$ 7,952	$ 9,307
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ 1,961	$ 1,455
Non-cash financing and investing activities:		
Equity contribution from parent company for acquisition of net generating assets (Note 1(a))	$ 139,855	$ -

The accompanying notes are an integral part of these condensed financial statements.

NOTES TO CONDENSED FINANCIAL STATEMENTS

ULH&P, a Kentucky corporation organized in 1901, is a combination electric and gas public utility company that provides service in northern Kentucky. **ULH&P's** common stock is wholly owned by The Cincinnati Gas & Electric Company (CG&E), an Ohio corporation organized in 1837, which is wholly owned by Cinergy Corp., a Delaware corporation organized in 1993.

1. Organization and Summary of Significant Accounting Policies

(a) *Transfer of Generating Assets from CG&E to ULH&P*

In January 2006, CG&E contributed to **ULH&P** 100 percent of its ownership interest in one generating unit and one peaking plant with a combined capacity of 727 megawatts (MWs) and its 69 percent interest in another generating station with an owned capacity of 414 MWs, as follows.

Generating Plant	*Location*	*Ownership Interest*	*Fuel Type*	*Owned MW Capacity*
East Bend	Boone County, Kentucky	69 %	Coal	414
Miami Fort	Hamilton County, Ohio	100 [1]	Coal	163
Woodsdale	Butler County, Ohio	100	Gas	564
				1,141

[1] Consists of 100 percent ownership in one generating unit at Miami Fort.

The transaction was effective as of January 1, 2006 at net book value. The final required regulatory approval for the plant transfer was received in November 2005 from the SEC under the Public Utility Holding Company Act of 1935. The Kentucky Public Service Commission (KPSC) and the Federal Energy Regulatory Commission had earlier issued orders approving aspects of the transaction. The transaction will not affect current retail electric rates for **ULH&P's** customers. Updated rates are expected to be implemented January 1, 2007 pursuant to a rate case to be filed in the second quarter of 2006 that incorporates the value of these assets into **ULH&P's** rate base.

In connection with the transfer of these assets, **ULH&P** accepted a capital contribution from CG&E and assumed certain liabilities of CG&E. In particular, **ULH&P** agreed to assume from CG&E all payment, performance, and other obligations of CG&E, with respect to (i) certain tax-exempt pollution control debt currently shown on the balance sheet of CG&E, (ii) certain of CG&E's outstanding *Accounts payable to affiliated companies*, and (iii) certain deferred tax liabilities related to the assets. **ULH&P** expects to repay the tax-exempt obligations with the proceeds from a future issuance of tax-exempt debt at **ULH&P**. The accounts payable obligations were repaid initially with the proceeds from short-term borrowings and eventually through the issuance of long-term senior unsecured debentures. The following table summarizes this transaction for **ULH&P**:

	(in thousands)
Assets Received	
Generating Assets	$ 375,811
Inventory	22,584
Other	995
Total Assets Received	$ 399,390
Liabilities Assumed	
Debt	$ 76,720
Accounts payable to affiliated companies	90,280
Deferred tax liabilities	90,575
Other	1,960
Total Liabilities Assumed	$ 259,535
Contributed Capital from CG&E	$ 139,855

As part of this transaction, CG&E and **ULH&P** terminated the long-term wholesale power contract under which CG&E had previously supplied power to **ULH&P**. Further, CG&E also proposed to supply and **ULH&P** agreed to

purchase back-up power from CG&E for planned and unplanned outages at the East Bend and Miami Fort plants through December 31, 2009 pursuant to a draft contract. The parties never executed this draft contract and **ULH&P** currently purchases back-up power, when needed, through the Midwest ISO energy markets. Given changes in circumstances, including the implementation of the Midwest ISO Energy Markets Tariff, CG&E and **ULH&P** are planning to propose an alternative arrangement for supplying back-up power to **ULH&P**. At this time, whether and the conditions under which the KPSC may allow **ULH&P** to recover any increased costs for an alternative arrangement for the supply of back-up power are unknown and CG&E and **ULH&P** cannot determine the magnitude of any potential increased costs for back-up power.

(b) ***Cinergy's Merger with Duke***

In March 2006, Cinergy, **ULH&P's** ultimate parent, and Duke Energy Corporation (Duke), a North Carolina corporation, received final approvals in connection with the merger from Duke and Cinergy shareholders, the North Carolina Utilities Commission (NCUC), and the Indiana Utility Regulatory Commission (IURC) and effective April 3, 2006, Cinergy Corp. consummated the merger with Duke. Under the merger agreement, each share of Cinergy common stock was converted into 1.56 shares of the newly formed company, Duke Energy Holding Corp., a Delaware Corporation (Duke Energy Holding) (subsequently renamed Duke Energy Corporation).

As a condition to the merger approval, the KPSC required that certain merger related savings be refunded to customers and provided additional conditions that the new company would have to meet. The key provision was for **ULH&P** to provide $7.6 million in rate credits to **ULH&P** customers over five years, ending when new rates are established in the next rate case after January 1, 2008, and **ULH&P** will also share profits from off-system sales with customers.

In addition, the Federal Energy Regulatory Commission (FERC) approved the merger without conditions. On January 19, 2006, Public Citizen's Energy Program, Citizen's Action Coalition of Indiana, Ohio Partners for Affordable Energy and Southern Alliance for Clean Energy requested rehearing of the FERC approval. On February 21, 2006, the FERC issued an order granting rehearing of FERC's order for further consideration.

(c) ***Presentation***

Our Condensed Financial Statements reflect all adjustments (which include normal, recurring adjustments) necessary in the opinion of **ULH&P** for a fair presentation of the interim results. These results are not necessarily indicative of results for a full year. These statements should be read in conjunction with the Financial Statements and the notes thereto included in the **ULH&P** Form 10-K for the year ended December 31, 2005 (2005 10-K). Also, certain amounts in the 2005 Condensed Financial Statements have been reclassified to conform to the 2006 presentation.

Prior to January 1, 2006, **ULH&P** purchased all energy for resale from CG&E. These purchases for **ULH&P** were reflected in the Statements of Income as *Electricity purchased from parent company for resale*. This contract was terminated, effective December 31, 2005, in connection with the transfer of generating assets from CG&E to **ULH&P**. As a result of the transfer, **ULH&P** now supplies its own power from these assets and purchases backup power directly from Midwest ISO when necessary. The related expenses and the related assets are now reflected in **ULH&P's** Statements of Income as *Fuel, emission allowances, and purchased power* and on the Balance Sheets as *Inventory* and *Intangible assets*. For further information regarding the transfer of generating assets, see Note 1(a).

Management makes estimates and assumptions when preparing financial statements under generally accepted accounting principles. Key estimates and judgments include:

- *Evaluating the regulatory recoverability of various costs;*
- Providing reserves for contingencies, including legal, environmental, and income taxes; and

Actual results could differ, as these estimates and assumptions involve judgment about future events or performance.

(d) *Revenue Recognition*

ULH&P records *Operating Revenues* for electric and gas service when delivered to customers. Customers are billed throughout the month as both gas and electric meters are read. We recognize revenues for retail energy sales that have not yet been billed, but where gas or electricity has been consumed. This is termed "unbilled revenues" and is a widely recognized and accepted practice for utilities. In making our estimates of unbilled revenues, we use systems that consider various factors, including weather, in our calculation of retail customer consumption at the end of each month. Given the use of these systems and the fact that customers are billed monthly, we believe it is unlikely that materially different results will occur in future periods when these amounts are subsequently billed. Unbilled revenues for **ULH&P** as of March 31, 2006 and 2005, were $15.6 million and $14.8 million, respectively.

2. Common Stock

(a) Changes In Common Stock Outstanding

CG&E holds all of the common stock of **ULH&P.**

In January 2006, CG&E contributed approximately $139.9 million in capital to **ULH&P** in conjunction with the transfer of certain generating assets to **ULH&P**. See Note 1(a) for additional information.

3. Long-term Debt

In January 2006, **ULH&P** assumed responsibility for principal and interest payments on $61 million of CG&E's long-term pollution control bonds in conjunction with the transfer of certain generating assets to **ULH&P**. The bonds will still remain on CG&E's balance sheet and **ULH&P's** obligation will be reflected as an intercompany note payable from **ULH&P** to CG&E. See Note 1(a) for additional information.

In March 2006, **ULH&P** issued $50 million principal amount of its 5.75% Debentures due March 10, 2016 and $65 million principal amount of its 6.20% Debentures due March 10, 2036. Proceeds from the issuances were used to repay short-term indebtedness including short-term debt arising from the transfer of generating assets from CG&E to **ULH&P**, the redemption of long-term debentures and for other general corporate purposes.

In April 2006, **ULH&P** redeemed all of its $15 million principal amount 7.65% Debentures due in 2025.

4. Notes Payable and Other Short-term Obligations

(a) Short-term Notes

At March 31, 2006, Cinergy Corp. had $1.1 billion remaining unused and available capacity relating to its $2 billion revolving credit facility. The revolving credit facility includes the following:

Credit Facility	Expiration	Established Lines	Outstanding and Committed	Unused and Available
			(in millions)	
Five-year senior revolving	September 2010			
Commercial paper support			$ 697	
Letter of credit support			165	
Total five-year facility		$ 2,000	862	$ 1,138

The revolver has a $100 million sublimit for **ULH&P**. **ULH&P** has made no borrowings related to the **ULH&P** sublimit.

As part of **ULH&P's** $100 million sublimit under the $2 billion five-year credit facility, **ULH&P** has covenanted to maintain:

- a consolidated net worth of $200 million; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

A breach of these covenants could result in the termination of the credit facility and the acceleration of the related indebtedness. In addition to breaches of covenants, certain other events that could result in the termination of available credit and acceleration of the related indebtedness include:

- bankruptcy;
- defaults in the payment of other indebtedness; and
- judgments against the company that are not paid or insured.

(b) Money Pool

ULH&P participates in a money pool arrangement with Cinergy Corp., CG&E and its subsidiaries, and PSI to better manage cash and working capital requirements. Under this arrangement, companies with surplus short-term funds provide short-term loans to affiliates (other than Cinergy Corp.) participating under this arrangement. This surplus cash may be from internal or external sources. The amounts outstanding under this money pool arrangement are shown as a component of *Notes receivable from affiliated companies* and/or *Notes payable from affiliated companies* on the Comparative Balance Sheets of **ULH&P**. Any money pool borrowings outstanding reduce the unused and available short-term debt regulatory authority of **ULH&P**. **ULH&P** had money pool borrowings of $30 million outstanding as of December 31, 2005. **ULH&P** had no money pool borrowings for the quarter ended March 31, 2006.

(c) Variable Rate Pollution Control Note

In January 2006, **ULH&P** assumed responsibility for principal and interest payments on $16 million of CG&E's redeemable variable rate pollution control bonds in conjunction with the transfer of certain generating assets to

ULH&P. The bonds will still remain on CG&E's balance sheet and **ULH&P's** obligation will be reflected as an intercompany note payable from **ULH&P** to CG&E. See Note 1(a) for additional information.

5. Pension and Other Postretirement Benefits

ULH&P provides benefits to retirees in the form of pension and other postretirement benefits through its participation in Cinergy sponsored plans. Cinergy's qualified defined benefit pension plans cover substantially all United States employees meeting certain minimum age and service requirements. Funding for the qualified defined benefit pension plans is based on actuarially determined contributions, the maximum of which is generally the amount deductible for tax purposes and the minimum being that required by the Employee Retirement Income Security Act of 1974, as amended. The pension plans' assets consist of investments in equity and debt securities. We also provide certain health care and life insurance benefits to retired United States employees and their eligible dependents. These benefits are subject to minimum age and service requirements. The health care benefits include medical coverage, dental coverage, and prescription drug coverage and are subject to certain limitations, such as deductibles and co-payments.

The net periodic benefit costs incurred by **ULH&P** for the quarters ended March 31, 2006 and 2005 were $848,858 and $719,954, respectively.

6. Commitments and Contingencies

(a) *Environmental*

(i) Emission Reduction Rulemakings

In October 1998, the Environmental Protection Agency (EPA) finalized its ozone transport rule, also known as the nitrogen oxides (NO_X) State Implementation Plan (SIP) Call, which addresses wind-blown ozone and ozone precursors that impact air quality in downwind states. The EPA's final rule, which applies to 22 states in the eastern United States including the three states in which our electric utilities operate, required states to develop rules to reduce NO_X emissions from utility and industrial sources. In a related matter, in response to petitions filed by several states alleging air quality impacts from upwind sources located in other states, the EPA issued a rule pursuant to Section 126 of the Clean Air Act (CAA) that required reductions similar to those required under the NO_X SIP Call. Various states and industry groups challenged the final rules in the Court of Appeals for the District of Columbia Circuit, but the court upheld the key provisions of the rules.

The EPA has proposed withdrawal of the Section 126 rule in states with approved rules under the final NO_X SIP Call, which includes Indiana, Kentucky, and Ohio. All three states have adopted a cap and trade program as the mechanism to achieve the required reductions. Cinergy, CG&E, and PSI have installed selective catalytic reduction units (SCR) and other pollution controls and implemented certain combustion improvements at various generating stations to comply with the NO_X SIP Call. Cinergy also utilizes the NO_X emission allowance market to buy or sell NO_X emission allowances as appropriate. As of March 31, 2006, we have incurred approximately $823 million in capital costs to comply with this program and do not anticipate significant additional costs.

In March 2005, the EPA issued the Clean Air Interstate Rule (CAIR) which would require states to revise their SIP by September 2006 to address alleged contributions to downwind non-attainment with the revised National Ambient Air Quality Standards for ozone and fine particulate matter. The rule established a two-phase, regional cap and trade program for sulfur dioxide (SO_2) and NO_X, affecting 28 states, including Ohio, Indiana, and Kentucky, and requires SO_2 and NO_X emissions to be cut 70 percent and 65 percent, respectively, by 2015. SIPs must comply with the prescribed reduction levels under CAIR; however, the states have the ability to introduce more stringent requirements if desired. Under CAIR, companies have flexible compliance options including installation of pollution controls on large plants where such controls are particularly efficient and utilization of emission allowances for smaller plants where controls are not cost effective.

In August 2005, the EPA proposed a Federal Implementation Plan (FIP), which would implement phase 1 of CAIR by 2009 and 2010 for NO_X and SO_2, respectively, for any state that does not develop a CAIR SIP in a timely

manner. On March 15, 2006, the EPA finalized the FIP to insure timely CAIR emissions reductions. Numerous states, environmental organizations, industry groups, including some of which Cinergy is a member, and individual companies have challenged various portions of the rules. Those challenges are currently pending in the United States Circuit Court for the District of Columbia. In December 2005 and again in January 2006, the EPA reconsidered portions of the CAIR, but did not propose any regulatory changes. On March 15, 2006, the EPA took final action on the issues being reconsidered and determined that its original decisions within the regulations were reasonable and should not be changed. At this time we cannot predict the outcome of these matters.

Also in March 2005, the EPA issued the Clean Air Mercury Rule (CAMR) which requires national reductions in mercury emissions from coal-fired power plants beginning in 2010. Accompanying the CAMR publication in the Federal Register was the EPA's determination that it was not appropriate and necessary to regulate mercury emissions from utilities under Section 112 of the CAA, requiring maximum achievable control technology, so that it would be possible to regulate those emissions under Section 111 of the CAA with the CAMR. The final regulation also adopts a two-phase cap and trade approach that requires mercury emissions to be cut by 70 percent by 2018. SIPs must comply with the prescribed reduction levels under CAMR; however, the states have the ability to introduce more stringent requirements if desired. Under CAMR, companies have flexible compliance options including installation of pollution controls on large plants where such controls are particularly efficient and utilization of emission allowances for smaller plants where controls are not cost effective.

Numerous states, environmental organizations, industry groups, including some of which Cinergy is a member, and individual companies have challenged various portions of the rules. Those challenges are currently pending in the United States Circuit Court for the District of Columbia. On October 21, 2005, the EPA agreed to reconsider certain aspects of the CAMR as well as the determination not to regulate mercury under Section 112 of the CAA. At this time we cannot predict the outcome of these matters.

Over the 2006-2010 time period, Cinergy expects to spend approximately $1.5 billion to reduce mercury, SO_2, and NO_X emissions, $19.7 million apply specifically to ULH&P. These projected expenditures include estimated costs to comply at plants that we own but do not operate and could change when taking into consideration compliance plans of co-owners or operators involved. Moreover, as market conditions change, additional compliance options may become available and our plans will be adjusted accordingly. Approximately 55 percent of these estimated environmental costs would be incurred at PSI's coal-fired plants, for which recovery would be pursued in accordance with regulatory statutes governing environmental cost recovery. CG&E receives partial recovery of depreciation and financing costs related to environmental compliance projects for 2005-2008 through its rate stabilization plan (RSP).

The EPA made final state non-attainment area designations to implement the revised ozone standard and to implement the new fine particulate standard in June 2004 and April 2005, respectively. Several counties in which we operate have been designated as being in non-attainment with the new ozone standard and/or fine particulate standard. States with counties that are designated as being in non-attainment with the new ozone and/or fine particulate standards are required to develop a plan of compliance by June 2007 and April 2008, respectively. Industrial sources in or near those counties are potentially subject to requirements for installation of additional pollution controls. In March 2005, various states, local governments, environmental groups, and industry groups, including some of which Cinergy is a member, filed petitions for review in the United States Court of Appeals for the D.C. Circuit to challenge the EPA's particulate matter non-attainment designations. Although the EPA has attempted to structure CAIR to resolve purported utility contributions to ozone and fine particulate non-attainment, at this time, Cinergy cannot predict the effect of current or future non-attainment designations on its financial position or results of operations.

In July 2005, the EPA issued its final regional haze rules and implementing guidelines in response to a 2002 judicial ruling overturning key provisions of the original program. The regional haze program is aimed at reducing certain emissions impacting visibility in national parks and wilderness areas. The EPA has announced that it can foresee no circumstances where the requirements of the regional haze rule would require utility controls beyond those required under CAIR. The EPA also found that states participating in the CAIR cap and trade program need not require electric generating units to adhere to best available retrofit technology requirements. The states have until December 2007 to finalize their SIPs addressing compliance with EPA regulations. The states may choose to implement more stringent guidelines than promulgated by the EPA, and therefore it is not possible to predict whether the regional haze rule will have a material effect on our financial position or results of operations.

(ii) Section 126 Petitions

In March 2004, the state of North Carolina filed a petition under Section 126 of the CAA in which it alleges that sources in 13 upwind states including Ohio, Indiana, and Kentucky, significantly contribute to North Carolina's non-attainment with certain ambient air quality standards. In August 2005, the EPA issued a proposed response to the petition. The EPA proposed to deny the ozone portion of the petition based upon a lack of contribution to air quality by the named states. The EPA also proposed to deny the particulate matter portion of the petition based upon the CAIR FIP, described earlier, that would address the air quality concerns from neighboring states. In March 2006, the EPA denied North Carolina's petition based upon the final CAIR FIP described above. It is unclear at this time whether North Carolina will pursue legal action on the denial.

(iii) Clean Air Act Lawsuit

In November 1999, and through subsequent amendments, the United States brought a lawsuit in the United States Federal District Court for the Southern District of Indiana against Cinergy, CG&E, and PSI alleging various violations of the CAA. Specifically, the lawsuit alleges that we violated the CAA by not obtaining Prevention of Significant Deterioration (PSD), Non-Attainment New Source Review (NSR), and Ohio and Indiana SIP permits for various projects at our owned and co-owned generating stations. Additionally, the suit claims that we violated an Administrative Consent Order entered into in 1998 between the EPA and Cinergy relating to alleged violations of Ohio's SIP provisions governing particulate matter at Unit 1 at CG&E's W.C. Beckjord Station. The suit seeks (1) injunctive relief to require installation of pollution control technology on various generating units at CG&E's W.C. Beckjord and Miami Fort (now owned by **ULH&P**) Stations, and PSI's Cayuga, Gallagher, Wabash River, and Gibson Stations, and (2) civil penalties in amounts of up to $27,500 per day for each violation. Although **ULH&P** is not a defendant in this case, a remedy in the case, should Cinergy not prevail, may include installation of equipment on generating stations now owned by ULH&P. In addition, three northeast states and two environmental groups have intervened in the case. In August 2005, the district court issued a ruling regarding the emissions test that it will apply to Cinergy at the trial of the case. Contrary to Cinergy's argument, the district court ruled that in determining whether a project was projected to increase annual emissions, it would not hold hours of operation constant. However, the district court subsequently certified the matter for interlocutory appeal to the Seventh Circuit Court of Appeals, which has accepted the appeal and set oral arguments for June 2006. In February 2006, the district court ruled that in carrying its burden of proof, the defendant can look to industry practice in proving a particular project was routine. The district court has removed the trial from the calendar and will reset a trial date, if necessary, after the Seventh Circuit rules. Notwithstanding the appeal, there are a number of other legal issues currently before the district court judge.

In addition, the Supreme Court has accepted for review a decision by the United States Fourth Circuit Court of Appeals in an unrelated, but similar, NSR case brought by the United States against Duke Energy. The issues before the Court include the emissions increase issue being considered by the Seventh Circuit, and any decision by the Supreme Court would be binding on Cinergy in its case. Briefing for the Supreme Court case will take place over the summer, with oral argument scheduled for November, 2006.

We are unable to predict whether resolution of these matters would have a material effect on our financial position or results of operations. We intend to vigorously defend against these allegations.

(iv) Carbon Dioxide (CO_2) Lawsuit

In July 2004, the states of Connecticut, New York, California, Iowa, New Jersey, Rhode Island, Vermont, Wisconsin, and the City of New York brought a lawsuit in the United States District Court for the Southern District of New York against Cinergy, American Electric Power Company, Inc., American Electric Power Service Corporation, The Southern Company, Tennessee Valley Authority, and Xcel Energy Inc. That same day, a similar lawsuit was filed in the United States District Court for the Southern District of New York against the same companies by Open Space Institute, Inc., Open Space Conservancy, Inc., and The Audubon Society of New Hampshire. These lawsuits allege that the defendants' emissions of CO_2 from the combustion of fossil fuels at electric generating facilities contribute to global warming and amount to a public nuisance. The complaints also allege that the defendants could generate the same amount of electricity while emitting significantly less CO_2. The

plaintiffs are seeking an injunction requiring each defendant to cap its CO_2 emissions and then reduce them by a specified percentage each year for at least a decade. In September 2005, the district court granted the defendants' motion to dismiss the lawsuit. The plaintiffs have appealed this ruling to the Second Circuit Court of Appeals, and oral argument is scheduled for June 2006. We are not able to predict whether resolution of these matters would have a material effect on our financial position or results of operations.

(b) ***Regulatory***

(i) ULH&P Gas Rate Case

In 2002, the KPSC approved **ULH&P's** gas base rate case requesting, among other things, recovery of costs associated with an accelerated gas main replacement program of up to $112 million over ten years. The approval allowed the costs to be recovered through a tracking mechanism for an initial three-year period expiring on September 30, 2005, with the possibility of renewal for up to ten years. The tracking mechanism allows **ULH&P** to recover depreciation costs and rate of return annually over the life of the assets. As of March 31, 2006, we have capitalized $64.5 million in costs associated with the accelerated gas main replacement program through this tracking mechanism, of which **ULH&P** has recovered $8.9 million. The Kentucky Attorney General has appealed to the Franklin Circuit Court the KPSC's approval of the tracking mechanism and the tracking mechanism rates. In October 2005, both **ULH&P** and the KPSC filed with the Franklin Circuit Court, requesting dismissal of the case for failure to prosecute by the Kentucky Attorney General. At the present time, **ULH&P** cannot predict the timing or outcome of this litigation.

In February 2005, **ULH&P** filed a gas base rate case with the KPSC requesting approval to continue the tracking mechanism in addition to its request for a $14 million annual increase in base rates. A portion of the increase is attributable to including recovery of the current cost of the accelerated main replacement program in base rates. The KPSC did not rule on the base rate case request or the request to continue the tracking mechanism by October 1, 2005; consequently the initial tracking mechanism expired on September 30, 2005. In accordance with Kentucky law, **ULH&P** implemented the full amount of the requested rate increase on October 1, 2005. In December 2005, the KPSC approved an annual rate increase of $8.1 million and reapproved the tracking mechanism through 2011. Pursuant to the KPSC's order, **ULH&P** filed a refund plan in January 2006 for the excess revenues collected since October 1, 2005. In February 2006, the KPSC issued an additional order responding to a rehearing request made by the Attorney General. Its rehearing order approved **ULH&P's** refund plan, which resulted in refunds being provided to customers beginning in March 2006. In February 2006, the Attorney General appealed the KPSC's order to the Franklin Circuit Court, claiming that the order improperly allows **ULH&P** to increase its rates for gas main replacement costs in between general rate cases, and also claiming that the order improperly allows **ULH&P** to earn a return on investment for the costs recovered under the tracking mechanism which permits **ULH&P** to recover its gas main replacement costs. At this time, **ULH&P** cannot predict the outcome of this litigation.

(ii) ULH&P Electric Rate Case

In May 2006, **ULH&P** filed an application for an increase in its base electric rates. The application, which seeks an increase of $67 million, or approximately 28 percent, was filed pursuant to the KPSC's 2003 Order approving the transfer of 1,100 MW of generating assets from CG&E to **ULH&P**. In that Order, the KPSC required the company to file a general rate application such that the effective date will be January 1, 2007. In the current electric rate proceeding, **ULH&P** also seeks approval for an alternative arrangement to a back-up supply agreement that was approved in the 2003 proceeding. At this time, the Company cannot predict the outcome of this proceeding.

APPENDIX B

CERTAIN DEFINITIONS

Unless the context otherwise requires, the following terms will, as used herein, have the following meanings:

"'A-1' Composite Commercial Paper Rate," on any date of determination, means (i) the interest equivalent of the 30-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated "A-l" by S&P, or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination; or (ii) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by the Commercial Paper Dealer to the Auction Agent as of the close of business on the Business Day immediately preceding such date of determination; *provided* that if any Commercial Paper Dealer does not quote a commercial paper rate required to determine the "A-l" Composite Commercial Paper Rate, the "A-1" Composite Commercial Paper Rate will be determined on the basis of such quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis (a *"discount rate")* for commercial paper of a given day's maturity will be equal to the product of (a) 100 times (b) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1%) of (x) the discount rate (expressed in decimals) divided by (y) the difference between (1) 1.00 and (2) a fraction, the numerator of which will be the product of the discount rate (expressed in decimals) times the number of days in which such commercial paper matures and the denominator of which will be 360.

"All Hold Rate" means, as of any Auction Date, 55% of LIBOR.

"Applicable Number of Business Days" means the greater of two Business Days or one Business Day plus the number of Business Days by which the Auction Date precedes the first day of the next succeeding Interest Period.

"Applicable Percentage," on any date of determination, means the percentage determined (as such percentage may be adjusted pursuant to the Indenture) based on the lower of the prevailing credit rating on the Auction Rate Bonds in effect at the close of business on the Business Day immediately preceding such date, as set forth below:

CREDIT RATINGS

MOODY'S INVESTORS SERVICE	STANDARD & POOR'S RATINGS SERVICES	APPLICABLE PERCENTAGE
"Aaa"	"AAA"	175%
"Aa3" to "A1"	"AA-" to "AA+"	175%
"A3" to "A1"	"A-" to "A+"	175%
"Baa3" to Baa1"	"BBB-" to "BBB+"	200%
Below "Baa3"	Below "BBB-"	265%

provided, that, in the event that the Auction Rate Bonds are not rated by any nationally recognized rating agency, the Applicable Percentage will be 265%, and, *provided further,* that if a Payment Default has occurred and be continuing, the Applicable Percentage will be 300%. For purposes of this definition, S&P's rating categories of "AAA", "AA", "A" and "BBB", and Moody's rating categories of "Aaa", "Aa", "A" and "Baa," refer to and include the respective rating categories correlative thereto if either or both of such rating agencies have changed or modified their generic rating categories or if Moody's or S&P no longer rates the Auction Rate Bonds and has been replaced.

"Auction Date" means September 7, 2006, and thereafter, the Business Day immediately preceding the first day of each Interest Period, other than:

(a) each Interest Period commencing after the ownership of the Auction Rate Bonds is no longer maintained in book entry form by the Depository;

(b) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or

(c) any Interest Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default.

Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed pursuant to the Indenture.

"Auction Period" means the Interest Period applicable to the particular Auction Rate Bonds as the same may be changed pursuant to the Indenture.

"Auction Rate Bonds" means any Bonds which bear the Auction Rate.

"Authorized Denominations" means (i) during an Auction Rate Period, for the Series 2006A Bonds, $25,000 or integral multiples thereof, and for the Series 2006B Bonds, $1,000 or integral multiples thereof; (ii) during a Commercial Paper Rate Period, a Daily Rate Period and a Weekly Rate Period, $100,000 minimum denomination, with $5,000 increments above $100,000; and (iii) during a Term Rate Period, $5,000 or integral multiples of $5,000.

"Book-Entry System" means the system maintained by the Depository and described herein under "THE BONDS—Auction Rate Period–*Depository*" and "THE BONDS—Book-Entry-Only System."

"Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, or the city or cities in which are located the principal corporate trust offices or payment offices of the Trustee, the Company, the Auction Agent, the Remarketing Agent, the Registrar or the Paying Agent are authorized by law to close or (iii) a day on which the New York Stock Exchange is closed.

"Code" means the Internal Revenue Code of 1986, as amended from time to time. References to the Code and Sections of the Code include relevant applicable regulations and proposed regulations thereunder and under the Internal Revenue Code of 1954, as amended, and any successor provisions to those Sections, regulations or proposed regulations and, in addition, all revenue rulings, announcements, notices, procedures and judicial determinations under the foregoing applicable to the Bonds.

"Commercial Paper Dealer" means the Remarketing Agent or, in lieu thereof, its affiliates or successors, provided that any such entity is a commercial paper dealer, or any substitute commercial paper dealer or dealers selected by the Company to provide the applicable quotation or quotations.

"Commercial Paper Rate" means, when used with respect to any particular Bond, the interest rate determined for each Commercial Paper Rate Period applicable thereto pursuant to the Indenture.

"Commercial Paper Rate Period" means a period during which a Bond bears interest at a Commercial Paper Rate.

"Conversion Date" means a day on which the Bonds are converted to bear interest (i) from one Variable Rate to another Variable Rate in accordance with the terms of the Indenture, including any change from a Term Rate Period to a Term Rate Period of a different duration, or (ii) from an Auction Rate to a Variable Rate or (iii) from a Variable Rate to an Auction Rate.

"Daily Rate" means the interest rate to be determined for the Bonds on each Business Day pursuant to the Indenture and described under the caption "THE BONDS–Interest Rate Determination Methods–*Daily Rate and Daily Rate Period.*"

"Daily Rate Period" means a period during which the Bonds bear interest at a Daily Rate is in effect.

"Depository" means The Depository Trust Company (a limited purpose trust company), New York, New York, until a successor Depository will have become such pursuant to the applicable provisions of the Indenture and thereafter, "Depository" will mean the successor Depository. Any Depository will be a depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a Book Entry System to record

ownership of beneficial interests in Bonds or bond service charges thereon, and to effect transfers of Bonds, in a Book Entry Form.

"Existing Holder" means a person who is listed as the beneficial owner of Auction Rate Bonds in the records of the Auction Agent.

"Initial Interest Period" means the period from and including the date of delivery of the Bonds and ending on September 7, 2006.

"Interest Payment Date" means, initially, September 8, 2006, and thereafter (a) when used with respect to Bonds bearing interest at the Daily or Weekly Rate, the first Business Day of each calendar month to which interest at such rate has accrued; (b) when used with respect to Bonds bearing interest at a Term Rate, the first day of the sixth calendar month following the month in which the Term Rate Period begins and the first day of each sixth calendar month thereafter to which interest at such rate has accrued, except that the last Interest Payment Date for any Term Rate Period which is followed by a conversion to a Daily, Weekly or Commercial Paper Rate Period (but not a conversion to a Term Rate Period of a different duration) will be the first Business Day of the sixth calendar month following the month in which the immediately preceding Interest Payment Date occurs; (c) when used with respect to any particular Bond bearing interest at a Commercial Paper Rate, the first Business Day following the last day of each Commercial Paper Rate Period applicable thereto; and (d) when used with respect to any particular Auction Rate Bond, (i) for an Auction Period of 91 days or less, the first Business Day after the end of such Auction Period and (ii) for an Auction Period of more than 91 days, each 13th Friday after the first day of such Auction Period and the first Business Day after the end of such Auction Period. In any case, the final Interest Payment Date will be the Maturity Date.

"Interest Period" means, unless otherwise changed as described in this Official Statement under "THE BONDS—Changes in the Auction Terms–*Changes in an Auction Period"*, for the Bonds, the Initial Interest Period for the Bonds and each successive 35-day period thereafter, commencing on a Friday and ending on (and including) a Thursday, *provided* that each Interest Period for such Auction Rate Bonds will commence on an Interest Payment Date and end on, but exclude, the next succeeding Interest Payment Date. *"Interest Period"*, for Bonds bearing interest at a Variable Rate means the period from an including any Interest Payment Date to and including the day immediately preceding the next following Interest Payment Date, as applicable. The final Interest Period will end on the day immediately preceding the Maturity Date.

"LIBOR" means on any date of determination for an Auction Period, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Telerate page 3750 at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market then on the next preceding day on which such dealings were transacted in such market. In the event that LIBOR as defined in the preceding sentence may not be determined on any such date, the "A-1" Composite Commercial Paper Rate shall be used instead of LIBOR.

"Liquidity Facility" means a standby bond purchase agreement, line of credit or other similar instrument allowing the Trustee or Paying Agent to draw thereunder to provide liquidity support for the payment of purchase price of Bonds tendered for purchase in accordance with the Indenture. The Bond Insurer must consent in writing to the delivery of any Liquidity Facility or waive in writing any requirement to deliver a Liquidity Facility. Any Liquidity Facility must be acceptable to the Bond Insurer.

"Liquidity Facility Issuer" means the issuer of any Liquidity Facility then in effect.

"Maturity Date" means August 1, 2027.

"Maximum Auction Rate," on any date of determination, means the interest rate per annum equal to the lesser of:

(i) the Applicable Percentage of LIBOR on such date; and

(ii) the Maximum Interest Rate;

rounded to the nearest one thousandth (.001) of 1%.

"Maximum Interest Rate" means the lesser of (a) 13% per annum, (b) the maximum rate of interest permitted under State law, or (c) in the case of Bonds bearing interest at a Variable Rate, the maximum rate of interest permitted by any Liquidity Facility then in effect.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, "Moody's" will be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer, with the approval of the Company, by notice to the Trustee and the Company.

"Opinion of Bond Counsel" means a written opinion of nationally-recognized bond counsel selected by the Company and acceptable to the Trustee and 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.

"Outstanding Bonds", *"Bonds outstanding"* or *"outstanding"* as applied to Bonds, means, as of the applicable date, all Bonds which have been authenticated and delivered, or which are being delivered by the Trustee under the Indenture, except:

(a) Bonds cancelled upon surrender, exchange or transfer, or cancelled because of payment or redemption on or prior to that date;

(b) On or after any purchase date for Bonds pursuant to the Indenture, all Bonds (or portions of Bonds) which are tendered or deemed to have been tendered for purchase on such date, but which have not been delivered to the Paying Agent, provided that funds sufficient for

such purchase are on deposit with the Paying Agent in the appropriate accounts in accordance with the provisions hereof;

(c) Bonds, or the portion thereof, for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited and credited with the Trustee or Paying Agent to the appropriate accounts on or prior to that date for the purpose (whether upon or prior to the maturity or redemption date of those Bonds); provided, that if any of those Bonds are to be redeemed prior to their maturity, notice of that redemption has been given or arrangements satisfactory to the Trustee have been made for giving notice of that redemption, or waiver by the affected Holders of that notice satisfactory in form to the Trustee has been filed with the Trustee;

(d) Bonds, or the portion thereof, which are deemed to have been paid and discharged or caused to have been paid and discharged pursuant to the provisions of the Indenture; and

(e) Bonds in lieu of which others have been authenticated under the Indenture.

"Participant" means one of the entities which deposit securities, directly or indirectly, in the Book-Entry System.

"Paying Agent" means (i) Deutsche Bank National Trust Company, located in New York, New York, or (ii) any bank or trust company designated as Paying Agent by or in accordance with the Indenture.

"Payment Default" means failure to make payment of interest on, premium, if any, and principal of the Auction Rate Bonds and the failure by the Bond Insurer to honor its obligations under the applicable Bond Insurance Policy.

"Potential Holder" means any person, including any Existing Holder, who may be interested in acquiring Auction Rate Bonds (or, in the case of an Existing Holder thereof, an additional principal amount of Auction Rate Bonds).

"Rate Period" means a period during which a particular rate of interest determined for the Bonds is to remain in effect until a subsequently determined rate of interest becomes effective pursuant to the Indenture. In any case, the final Rate Period will end on (and include) the day immediately preceding the Maturity Date.

"Registrar" means Deutsche Bank National Trust Company, until a successor Registrar has become such pursuant to the Indenture.

"S&P" means Standard & Poor's Ratings Services, and its successors and assigns, except that if such Division is dissolved or liquidated or no longer performs the functions of a securities rating agency, "S&P" will be deemed to refer to any other nationally recognized securities rating organization designated by the Issuer, with the approval of the Company, by notice to the Trustee and the Company.

"State" means the Commonwealth of Kentucky.

"Submission Deadline" means 1:00 p.m., New York City time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

"Submission Processing Deadline" means the earlier of (i) 40 minutes after the Submission Deadline and (ii) the time when the Auction Agent begins to disseminate the results of the Auction to the Broker-Dealers.

"Term Rate" means the interest rate to be determined pursuant to the Indenture for the Bonds for a term of one or more whole years or for a term to the Maturity Date.

"Term Rate Period" means a period during which the Bonds bear interest at a particular Term Rate.

"Variable Rate" means, as the context requires, the Commercial Paper, Daily, Weekly or Term Rate applicable from time to time to the Bonds.

"Weekly Rate" means the interest to be determined for the Bonds on a weekly basis pursuant to the Indenture and described under the caption "THE BONDS–Interest Rate Determination Methods–*Weekly Rate and Weekly Rate Period.*"

"Weekly Rate Period" means a period during which the Bonds bear interest at a Weekly Rate.

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APPENDIX C

AUCTION PROCEDURES

While the Bonds are Auction Rate Bonds, Auctions will be conducted on each Auction Date (other than the Auction Date immediately preceding (i) each Interest Period commencing after the ownership of the Auction Rate Bonds is no longer maintained in the Book-Entry System; (ii) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (iii) any Interest Period commencing less than two Business Days after the cure of a Payment Default). Auctions will be conducted in the following manner:

(a)(i) Prior to the Submission Deadline on each Auction Date:

(A) each Existing Holder of Auction Rate Bonds may submit to a Broker-Dealer information as to:

(1) the principal amount of Outstanding Auction Rate Bonds, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding Interest Period;

(2) the principal amount of Outstanding Auction Rate Bonds, if any, which such Existing Holder offers to sell if the Auction Rate for the next succeeding Interest Period will be less than the rate per annum specified by such Existing Holder; and/or

(3) the principal amount of Outstanding Auction Rate Bonds, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding Interest Period; and

(B) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of Auction Rate Bonds which each such Potential Holder offers to purchase if the Auction Rate for the next succeeding Interest Period will not be less than the rate per annum specified by such Potential Holder.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in the preceding clause (A) or clause (B) is hereinafter referred to as an *"Order"* and collectively as *"Orders"* and each Existing Holder and each Potential Holder placing an Order is hereinafter referred to as a *"Bidder"* and collectively as *"Bidders"*; an Order containing the information referred to in the preceding clause (A)(1) is hereinafter referred to as a *"Hold Order"* and collectively as *"Hold Orders,"* clause (A)(2) or (B) is hereinafter referred to as a *"Bid"* and collectively as *"Bids"* and clause (A)(3) is hereinafter referred to as a *"Sell Order"* and collectively as *"Sell Orders."*

(ii) (A) Subject to the provisions of (b) below, a Bid by an Existing Holder will constitute an offer to sell:

(1) the principal amount of Outstanding Auction Rate Bonds specified in such Bid if the Auction Rate determined as provided in these Auction Procedures will be less than the rate specified in such Bid; or

(2) such principal amount or a lesser principal amount of Outstanding Auction Rate Bonds to be determined as set forth in (d)(i)(D) below, if the Auction Rate determined as provided in these Auction Procedures will be equal to the rate specified in such Bid; or

(3) such principal amount or a lesser principal amount of Outstanding Auction Rate Bonds to be determined as set forth in (d)(ii)(C) below if the rate specified will be higher than the Maximum Auction Rate and Sufficient Clearing Bids have not been made.

(B) Subject to the provisions of (b) below, a Sell Order by an Existing Holder will constitute an offer to sell:

(1) the principal amount of Outstanding Auction Rate Bonds specified in such Sell Order; or

(2) such principal amount or a lesser principal amount of Outstanding Auction Rate Bonds as set forth in (d)(ii)(C) below if Sufficient Clearing Bids have not been made.

(C) Subject to the provisions of (b) below, a Bid by a Potential Holder will constitute an offer to purchase:

(1) the principal amount of Outstanding Auction Rate Bonds specified in such Bid if the Auction Rate determined as provided in these Auction Procedures will be higher than the rate specified in such Bid; or

(2) such principal amount or a lesser principal amount of Outstanding Auction Rate Bonds as set forth in (d)(i)(E) below if the Auction Rate determined as provided in these Auction Procedures will be equal to the rate specified in such Bid.

(b)(i) Each Broker-Dealer will submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer and will specify with respect to each such Order:

(A) the aggregate principal amount of Auction Rate Bonds that are the subject of such Order;

(B) to the extent that such Bidder is an Existing Holder:

(1) the principal amount of Auction Rate Bonds, if any, subject to any Hold Order placed by such Existing Holder;

(2) the principal amount of Auction Rate Bonds, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and

(3) the principal amount of Auction Rate Bonds, if any, subject to any Sell Order placed by such Existing Holder; and

(C) to the extent such Bidder is a Potential Holder, the rate and amount specified in such Potential Holder's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent will round such rate up to the next highest one thousandth (.001) of 1%.

(iii) If an Order or Orders covering all Outstanding Auction Rate Bonds held by any Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent will deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Outstanding Auction Rate Bonds held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

(iv) None of the Issuer, the Company, the Trustee, the Paying Agent, the Auction Agent or the Remarketing Agent will be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

(v) If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding Auction Rate Bonds held by such Existing Holder, such Orders will be considered valid as follows and in the following order of priority:

(A) all Hold Orders will be considered valid, but only up to and including in the aggregate the principal amount of Auction Rate Bonds held by such Existing Holder, and if the aggregate principal amount of Auction Rate Bonds subject to such Hold Orders exceeds the aggregate principal amount of Auction Rate Bonds held by such Existing Holder, the aggregate principal amount of Auction Rate Bonds subject to each such Hold Order will be reduced pro rata to cover the aggregate principal amount of Outstanding Auction Rate Bonds held by such Existing Holder;

(B) (1) any Bid will be considered valid up to and including the excess of the principal amount of Outstanding Auction Rate Bonds held by such Existing Holder over the aggregate principal amount of Auction Rate Bonds subject to any Hold Orders referred to in clause (A) of this paragraph (v);

(2) subject to subclause (1) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the

aggregate principal amount of Outstanding Auction Rate Bonds subject to such Bids is greater than such excess, such Bids will be considered valid up to and including the amount of such excess and the stated amount of Auction Rate Bonds subject to each Bid with the same rate will be reduced pro rata to cover the stated amount of Auction Rate Bonds equal to such excess;

(3) subject to subclause (1) and (2) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids will be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(4) in any such event, the aggregate principal amount of Outstanding Auction Rate Bonds, if any, subject to Bids not valid under this clause (B) will be treated as the subject of a Bid by a Potential Holder at the rate therein specified; and

(C) all Sell Orders will be considered valid up to and including the excess of the principal amount of Outstanding Auction Rate Bonds held by such Existing Holder over the aggregate principal amount of Auction Rate Bonds subject to valid Hold Orders referred to in clause (A) of this paragraph (v) and valid Bids referred to in clause (B) of this paragraph (v).

(vi) In connection with any auction, if more than one Bid for Auction Rate Bonds is submitted on behalf of any Potential Holder or Existing Holder, each Bid submitted with the same rate will be aggregated and considered a single Bid and each Bid submitted with a different rate will be considered a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of Auction Rate Bonds not equal to an Authorized Denomination therefor will be rejected and will be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of Auction Rate Bonds not equal to an Authorized Denomination therefor will be rejected.

(c)(i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent will assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a *"Submitted Hold Order," a "Submitted Bid"* or a *"Submitted Sell Order,"* as the case may be, or as a *"Submitted Order"* and collectively as *"Submitted Hold Orders," "Submitted Bids"* or *"Submitted Sell Orders,"* as the case may be, or as *"Submitted Orders")* and will determine:

(A) the excess of the total principal amount of Outstanding Auction Rate Bonds over the sum of the aggregate principal amount of Outstanding Auction Rate Bonds subject to Submitted Hold Orders (such excess being hereinafter referred to as the *"Available Auction Rate Bonds");* and

(B) from such Submitted Orders whether:

(1) the aggregate principal amount of Outstanding Auction Rate Bonds subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Auction Rate exceeds or is equal to the sum of:

(2) the aggregate principal amount of Outstanding Auction Rate Bonds subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Auction Rate; and

(3) the aggregate principal amount of Outstanding Auction Rate Bonds subject to Submitted Sell Orders;

(in the event such excess or such equality exists, other than because the sum of the principal amounts of Auction Rate Bonds in subclauses (2) and (3) above is zero because all of the Outstanding Auction Rate Bonds are subject to Submitted Hold Orders, such Submitted Bids in subclause (1) above being hereinafter referred to collectively as *"Sufficient Clearing Bids");* and

(C) if Sufficient Clearing Bids have been made, the lowest rate specified in such Submitted Bids (which will be the *"Winning Bid Rate")* such that if:

(1)(aa) each such Submitted Bid from Existing Holders specifying such lowest rate and (bb) all other Submitted Bids from Existing Holders specifying lower rates were rejected, thus entitling such Existing Holders to continue to hold the principal amount of Auction Rate Bonds subject to such Submitted Bids; and

(2)(aa) each such Submitted Bid from Potential Holders specifying such lowest rate and (bb) all other Submitted Bids from Potential Holders specifying lower rates were accepted; the result would be that such Existing Holders described in subclause (1) above would continue to hold an aggregate principal amount of Outstanding Auction Rate Bonds which, when added to the aggregate principal amount of Outstanding Auction Rate Bonds to be purchased by such Potential Holders described in subclause (2) above, would equal not less than the Available Auction Rate Bonds.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (i) of this subsection (c), the Auction Agent will advise the Paying Agent and the Company of the Maximum Auction Rate and the All Hold Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding interest Period (the *"Auction Rate")* as follows:

(a) if Sufficient Clearing Bids have been made, that the Auction Rate for the next succeeding Interest Period will be equal to the Winning Bid Rate so determined;

(b) if Sufficient Clearing Bids have not been made (other than because all of the Outstanding Auction Rate Bonds are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period will be equal to the Maximum Auction Rate; or

(c) if all outstanding Auction Rate Bonds are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period will be equal to the All Hold Rate.

(d) Existing Holders will continue to hold the Principal amount of Auction Rate Bonds that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to (c)(i) above, Submitted Bids and Submitted Sell Orders will be accepted or rejected and the Auction Agent will take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, all Submitted Sell Orders will be accepted and, subject to the provisions of paragraph (iv) of this subsection (d), Submitted Bids will be accepted or rejected as follows in the following order of priority and all other Submitted Bids will be rejected:

(A) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate will be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of Auction Rate Bonds subject to such Submitted Bids;

(B) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate will be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Auction Rate Bonds subject to such Submitted Bids;

(C) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate will be accepted, thus requiring such Potential Holder to purchase the aggregate principal amount of Auction Rate Bonds subject to such Submitted Bids;

(D) Each Existing Holders' Submitted Bid specifying a rate that is equal to the Winning Bid Rate will be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of Auction Rate Bonds subject to such Submitted Bid, unless the aggregate principal amount of Outstanding Auction Rate Bonds subject to all such Submitted Bids will be greater than the principal amount of Auction Rate Bonds (the *"remaining principal amount")* equal to the excess of the Available Auction Rate Bonds over the aggregate principal amount of Auction Rate Bonds subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Holder will be rejected in part, and such Existing Holder will be entitled to continue to hold the principal amount of Auction Rate Bonds subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of Auction Rate Bonds obtained by multiplying the remaining principal amount by a fraction the numerator of which will be the principal amount of Outstanding Auction Rate Bonds held by such Existing Holder subject to such Submitted Bid and the denominator of which will be the sum of the principal amount of Outstanding Auction Rate Bonds subject to such

Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

(E) Each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate will be accepted but only in an amount equal to the principal amount of Auction Rate Bonds obtained by multiplying the excess of the aggregate principal amount of Available Auction Rate Bonds over the aggregate principal amount of Auction Rate Bonds subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph (i) by a fraction the numerator of which will be the aggregate principal amount of Outstanding Auction Rate Bonds subject to such Submitted Bid and the denominator of which will be the sum of the principal amounts of Outstanding Auction Rate Bonds subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding Auction Rate Bonds are subject to Submitted Hold Orders), subject to the provisions of paragraph (iv) of this subsection (d), Submitted Orders will be accepted or rejected as follows in the following order of priority and all other Submitted Bids will be rejected:

(A) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate will be rejected, thus requiring such Existing Holders to continue to hold the aggregate principal amount of Auction Rate Bonds subject to such Submitted Bids;

(B) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate will be accepted, thus requiring each Potential Holder to purchase the aggregate principal amount of Auction Rate Bonds subject to such Submitted Bids; and

(C) Each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Auction Rate and the Submitted Sell Order of each Existing Holder will be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the Auction Rate Bonds subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Auction Rate Bonds obtained by multiplying the aggregate principal amount of Auction Rate Bonds subject to Submitted Bids described in clause (B) of this paragraph (ii) by a fraction the numerator of which will be the aggregate principal amount of Outstanding Auction Rate Bonds held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which will be the aggregate principal amount of Outstanding Auction Rate Bonds subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If all Outstanding Auction Rate Bonds are subject to Submitted Hold Orders, all Submitted Bids will be rejected.

(iv) If, as a result of the procedures described in paragraph (i) or (ii) of this subsection (d), any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of Auction Rate Bonds that is not equal to an Authorized Denomination therefor the Auction Agent will, in such manner as it in its sole discretion determines, round up or down the principal amount of Auction Rate Bonds to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of Auction Rate Bonds purchased or sold by each Existing Holder or Potential Holder will be equal to an Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing any Auction Rate Bonds.

(e) Based on the results of each Auction, the Auction Agent will determine the aggregate principal amount of Auction Rate Bonds to be purchased and the aggregate principal amount of Auction Rate Bonds to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of Auction Rate Bonds to be sold differs from such aggregate principal amount of Auction Rate Bonds to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer will deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer will receive, as the case may be, Auction Rate Bonds.

Submission Processing Representation. Broker-Dealers may submit an Order after the Submission Deadline and prior to the Submission Processing Deadline if the Order was (i) received by the Broker-Dealer from Existing Owners or Potential Owners prior to the Submission Deadline or (ii) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline. Each Order submitted to the Auction Agent after the Submission Deadline and prior to the Submission Processing Deadline will constitute a representation by the Broker-Dealer that such Order was (i) received from an Existing Owner or Potential Owner prior to the Submission Deadline or (ii) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline (the "*Submission Processing Representation*").

Adjustment in Percentages. The Broker-Dealer will adjust the All Hold Rate and the Applicable Percentage used in determining the Maximum Auction Rate, if any such adjustment is necessary, in the good faith judgment of the Broker-Dealer, with the consent of the Company. In making any such adjustment, the Broker-Dealer will take the following factors into account:

(i) short-term taxable and tax-exempt market rates and indices of such short-term rates;

(ii) the market supply and demand for short-term tax-exempt securities;

(iii) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to the Auction Rate Bonds;

(iv) general economic conditions; and

(v) economic and financial factors present in the securities industry that may affect or that may be relevant to the Auction Rate Bonds.

The Broker-Dealer will effectuate an adjustment in the All Hold Rate and the Applicable Percentage used to determine the Maximum Auction Rate by delivering to the Company, the Trustee, the Paying Agent and the Auction Agent at least five days prior to the Auction Date on which the Broker-Dealer desires to effect such change a certificate in substantially the form as required by the Indenture, authorizing the adjustment of the All Hold Rate and the Applicable Percentage used to determine the Maximum Auction Rate, which will be specified in such certificate.

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APPENDIX D

SETTLEMENT PROCEDURES

The following Settlement Procedures are as set forth in Exhibit A to the initial Broker-Dealer Agreement.

(a) Not later than 3:00 P.M. on each Auction Date, the Auction Agent is required to notify by telephone or telecopy the Broker-Dealers that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Holder or Potential Holder of:

(i) the Auction Rate fixed for the next Interest Period.

(ii) whether there were Sufficient Clearing Bids in such Auction;

(iii) if such Broker-Dealer (a "*Seller's Broker-Dealer*") submitted a Bid or a Sell Order on behalf of an Existing Holder, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Auction Rate Bonds, if any, to be sold by such Existing Holder;

(iv) if such Broker-Dealer (a "*Buyer's Broker-Dealer*") submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Auction Rate Bonds, if any, to be purchased by such Potential Holder;

(v) if the aggregate principal amount of Auction Rate Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different than the aggregate principal amount of Auction Rate Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Buyer's Broker-Dealers (and the Participant, if any, of each such other Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of Auction Rate Bonds and the principal amount of Auction Rate Bonds to be purchased from one or more Existing Holders on whose behalf such Broker-Dealer acted by one or more Potential Holders on whose behalf each of such other Buyer's Broker-Dealers acted; and

(vi) if the principal amount of Auction Rate Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid exceeds the amount of Auction Rate Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the agent member, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of Auction Rate Bonds and the principal amount of Auction Rate Bonds to be sold to one or more Potential Holders on whose behalf such Broker-Dealer acted by one or more Existing Holders on whose behalf of each of such Seller's Broker-Dealers acted;

(vii) unless previously provided, a list of all Applicable Auction Rate Bonds Rates and related Interest Periods (or portions thereof) since the last Interest Payment Date; and

(viii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder shall:

(i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction or such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) instruct each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Bidder's Participant to pay such Broker-Dealer (or its Participant) through DTC the amount necessary to purchase the principal amount of Auction Rate Bonds to be purchased pursuant to such Bid against receipt of such principal amount of Auction Rate Bonds;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Participant to deliver to such Broker-Dealer (or its Participant) through DTC the principal amount of Auction Rate Bonds to be sold pursuant to such Bid or Sell Order against payment therefor;

(iv) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Interest Period;

(v) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it pursuant to paragraph (b)(ii) above, and any Auction Rate Bonds received by it pursuant to paragraph (b)(iii) above, among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Holder and Existing Holder with an Order in the Auction on such Auction Date shall instruct its Participant as provided in (b)(ii) or (b)(iii) above, as the case may be;

(ii) each Seller's Broker-Dealer that is not a Participant in DTC shall instruct is Participant to (A) pay through DTC to the Participant of the Existing Holder delivering Auction Rate Bonds to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary, including accrued interest, if any, to purchase such Auction Rate Bonds against receipt of such Auction Rate Bonds, and (B) deliver such Auction Rate Bonds through DTC to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not a Participant in DTC shall instruct its Participant to (A) pay through DTC to a Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to (a)(vi) above the amount necessary, including accrued interest, if any, to purchase the Auction Rate Bonds to be purchased pursuant to (b)(ii) above against receipt of such Auction Rate Bonds, and (B) deliver such Auction Rate Bonds through DTC to the Participant of the purchaser thereof against payment therefor.

(e) On the first Business Day of the Interest Period next succeeding each Auction Date:

(i) each Participant for a Bidder in the Auction on such Date referred to in (d)(i) above shall instruct DTC to execute the transactions described under (b)(ii) or (b)(iii) above for such Auction, and DTC shall execute such transaction;

(ii) each Seller's Broker-Dealer or its Participant shall instruct DTC to execute the transactions described in (d)(ii) above for such Auction, and DTC shall execute such transaction; and

(iii) each Buyer's Broker-Dealer or its Participant shall instruct DTC to execute the transactions described in (d)(iii) above for such Auction, and DTC shall execute such transactions.

(f) If an Existing Holder selling Auction Rate Bonds in an Auction fails to deliver such Auction Rate Bonds (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of Auction Rate Bonds that is less than the principal amount of Auction Rate Bonds that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of Auction Rate Bonds to be so delivered shall be determined solely by such Broker-Dealer. Delivery of such lesser principal amount of Auction Rate Bonds shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or nondelivery of Auction Rate Bonds which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent and the Broker-Dealer Agreement.

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APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

Morgan Stanley & Co. Incorporated
New York, New York

Re: $76,720,000 County of Boone, Kentucky Pollution Control Revenue Refunding Bonds (Duke Energy Kentucky, Inc. Project) Series 2006 A & B

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the County of Boone, Kentucky (the "Issuer") of $76,720,000 in aggregate principal amount of its Pollution Control Revenue Refunding Bonds (Duke Energy Kentucky, Inc. Project) Series 2006A and Series 2006B (the "Bonds").

The Bonds are being issued to refund and redeem the Issuer's (i) 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"), (ii) 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, and (iii) 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" and together with the 1985 Bonds and the 1992 Bonds, the "Prior Bonds") each issued to provide financing for the cost of acquisition, construction, improvement and equipping of certain air and water pollution control facilities and waste disposal facilities at the East Bend Generating Station located near Union, Kentucky (the "Generating Station"), pursuant to Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"). The proceeds of the 1985 Bonds 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 The Cincinnati Gas & Electric Company's ("CG&E") 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 "1985 Project"). The proceeds of the 1992 Bonds were used to refund the Issuer's Pollution Control Revenue Bonds (The Dayton Power and Light Company Project), 1979 Series A, which bonds were issued to finance the Dayton Power and Light Company's ("DP&L") 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 together with the 1985 Project, the "Project"). The proceeds of the 1994 Bonds were used to refund the Issuer's Pollution Control Revenue

Bonds (The Cincinnati Gas & Electric Company Project), 1979 Series A, 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. CG&E has assumed DP&L's duties and obligations with respect to the 1992 Bonds and The Union Light, Heat and Power Company (doing business as Duke Energy Kentucky, Inc.) (the "Company") has assumed CG&E's duties and obligations with respect to 1985 Bonds, the 1992 Bonds and the 1994 Bonds.

The Issuer will lend the proceeds from the sale of the Bonds to the Company pursuant to two separate, but substantially similar, Loan Agreements, each dated as of August 1, 2006 (collectively, the "Agreement") each between the Issuer and the Company in order to assist the Company in refinancing the cost of the Project.

The Bonds are being issued in the aggregate principal amount of $76,720,000 under and pursuant to two separate, but substantially similar, Trust Indentures, each dated as of August 1, 2006 (collectively, the "Indenture") each from the Issuer to Deutsche Bank National Trust Company (the "Trustee"). The Bonds are issuable as fully registered Bonds and bear interest initially at the Auction Rate as specified in the Indenture.

Section 103 of the Internal Revenue Code of 1954, as amended (the "1954 Code"), provides generally that interest on an issue of industrial development bonds substantially all of the proceeds of which are to be used to provide air and water pollution control or solid waste disposal facilities, or to refund such bonds, will be excludable from gross income for federal income tax purposes. Section 1313 of the Tax Reform Act of 1986 (the "1986 Tax Act") provides that the provisions of Section 103 of the 1954 Code will continue to apply to bonds that refund bonds issued prior to August 16, 1986, provided the refunding bonds satisfy the requirements of the 1954 Code as well as certain additional requirements imposed by the 1986 Tax Act and the Internal Revenue Code of 1986, as amended (the "Code"). We have concluded that the Bonds meet the requirements of the 1954 Code, the 1986 Tax Act and the Code in reliance on the certification by the Company of certain factual matters concerning the Project and the Company's agreement to rebate arbitrage profits, if any, in accordance with Section 148 of the Code. Failure by the Company to comply with such agreement would cause interest on the Bonds to be subject to federal income tax from the date of issuance of the Bonds.

We have reviewed a certificate of the Issuer pertaining to the expected investment of the proceeds of the Bonds, and in view of the matters set forth in that certificate, it is our opinion that the Bonds are not arbitrage bonds within the meaning of Section 148 of the Code.

As to questions of fact material to our opinion, we have relied, without undertaking to verify the same by independent investigation upon (i) representations of the Issuer and the Company, (ii) certified proceedings and other certifications of public officials furnished to us, (iii) certifications by officials of the Company, (iv) representations of the Company with respect to certain material facts relating to the design, scope, function, use, cost and economic useful life of the Project and the use of proceeds of the Prior Bonds and (v) a covenant of the Company with respect to the use of the proceeds of the Bonds. With respect to certain matters governed by Kentucky law, we have relied upon the opinion of Stoll Keenon Ogden PLLC, of even date herewith.

In our capacity as Bond Counsel, we have examined such documents, records of the Issuer and other instruments as we deemed necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Indenture, the Agreement, the other documents listed in the closing memorandum filed with the Trustee, and the form of the Bonds.

Based on the foregoing, it is our opinion that:

1. The Bonds, the Indenture and the Agreement are legal, valid, binding and enforceable in accordance with their respective terms, except that the binding effect and enforceability thereof are subject to bankruptcy laws and other laws affecting creditors' rights and the exercise of judicial discretion.

2. The Bonds constitute special and limited obligations of the County of Boone of Kentucky, and the principal of and interest (collectively, "debt service") on the Bonds are payable solely from the revenues and other moneys assigned by the Indenture to secure that payment. Those revenues and other moneys include the payments required to be made by the Company under the Agreement. The Bonds do not constitute a debt or pledge of the faith and credit or taxing power of the Issuer, or the Commonwealth or Kentucky or any political subdivision thereof, and the holders or owners thereof have no right to have taxes levied by the Commonwealth of Kentucky or the Issuer for the payment of debt service on the Bonds.

3. Assuming the accuracy of the certifications of the Company and continuing compliance with the requirements of the Code as provided in the Indenture and the Agreement, interest on the Bonds is excludable from gross income for federal income tax purposes (except as to any Bond held by a "substantial user" of the Project or by a "related person", as such terms are used in Section 103(b)(13) of the 1954 Code). Interest on the Bonds will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds is includable, pursuant to Section 55 of the Code, in adjusted current earnings in determining the alternative minimum taxable income of corporations for purposes of determining such corporations' liability for the alternative minimum tax.

4. The interest on the Bonds is excluded from gross income of the owners thereof for Kentucky income tax purposes and the Bonds are exempt from all ad valorem taxes in Kentucky.

We express no opinion as to federal tax consequences arising with regard to the Bonds other than the opinions expressed in Paragraph 3 above and the opinions and conclusions expressed in the fifth and sixth paragraphs of this letter. We express no opinion as to the state and local tax consequences arising with regard to the Bonds other than the opinion expressed in Paragraph 4 above.

We do not express any opinion herein as to the adequacy or accuracy of the Official Statement of the Issuer, dated July 26, 2006, pertaining to the offering of the Bonds.

This opinion is provided as a legal opinion only. No opinions may be inferred or implied beyond the matters expressly stated herein. The opinions that are expressed herein are solely for your benefit and may not be relied upon in any manner for any purpose by any other person or entity without prior written consent. This opinion speaks as of its date only, and we disclaim any undertaking or obligation to advise you of changes that hereafter may be brought to our attention.

Very truly yours,

THOMPSON HINE LLP

APPENDIX F

XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

MUNICIPAL BOND INSURANCE POLICY

ISSUER: **Policy No:**

BONDS: **Effective Date:**

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XLCA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. *This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by* any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

NOTICE IS HEREBY GIVEN THAT A PREMIUM SURCHARGE REQUIRED BY KRS 136.392 IS BEING CHARGED IN RESPECT OF THIS POLICY.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

SPECIMEN
Name:
Title:

SPECIMEN
Name:
Title:

XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

ENDORSEMENT

ISSUER: County of Boone, Kentucky **Policy No:**

BONDS: Pollution Control Revenue Refunding Bonds (Duke Energy Kentucky, Inc. Project) Series 2006A **Effective Date:**

Attached to Policy No. _____ (the "Policy") issued by XL Capital Assurance Inc. ("XLCA") to the Trustee referred to in the Policy with respect to the Bonds designated above (the "Bonds").

Notwithstanding the terms and conditions contained in the Policy, in the event all or a portion of the Bonds become subject to mandatory redemption pursuant to Section 4.01(b)(i) of the Indenture following the occurrence of a Determination of Taxability, the principal of and interest on such Bonds due upon any such redemption shall be deemed Due for Payment within the meaning of the Policy. As used in this Endorsement, the term "Indenture" means the Trust Indenture dated as of August 1, 2006 between the Issuer designated above and Deutsche Bank National Trust Company, as Trustee; and the term "Determination of Taxability" has the meaning ascribed thereto in Section 1.01 of the Indenture.

This endorsement forms a part of the Policy to which it is attached, effective on the inception date of the Policy.

IN WITNESS WHEREOF, XLCA has caused this endorsement to be executed and attested on its behalf by its duly authorized officers.

SPECIMEN
Name:
Title:

SPECIMEN
Name:
Title:

XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

ENDORSEMENT

ISSUER: County of Boone, Kentucky **Policy No:**

BONDS: Pollution Control Revenue Refunding Bonds (Duke Energy Kentucky, Inc. Project) Series 2006B **Effective Date:**

Attached to Policy No. _____ (the "Policy") issued by XL Capital Assurance Inc. ("XLCA") to the Trustee referred to in the Policy with respect to the Bonds designated above (the "Bonds").

Notwithstanding the terms and conditions contained in the Policy, in the event all or a portion of the Bonds become subject to mandatory redemption pursuant to Section 4.01(b)(i) of the Indenture following the occurrence of a Determination of Taxability, the principal of and interest on such Bonds due upon any such redemption shall be deemed Due for Payment within the meaning of the Policy. As used in this Endorsement, the term "Indenture" means the Trust Indenture dated as of August 1, 2006 between the Issuer designated above and Deutsche Bank National Trust Company, as Trustee; and the term "Determination of Taxability" has the meaning ascribed thereto in Section 1.01 of the Indenture.

This endorsement forms a part of the Policy to which it is attached, effective on the inception date of the Policy.

IN WITNESS WHEREOF, XLCA has caused this endorsement to be executed and attested on its behalf by its duly authorized officers.

SPECIMEN
Name:
Title:

SPECIMEN
Name:
Title:

FINANCIAL EXHIBIT

(1) Amount and kinds of stock authorized

1,000,000 shares of Capital Stock $15 par value amounting to $15,000,000 par value.

(2) Amount and kinds of stock issued and outstanding

585,333 shares of Capital Stock $15 par value amounting to $8,779,995 total par value. Total Capital Stock and Additional Paid-in Capital as of December 31, 2007:

Capital Stock and Additional Paid-in Capital
As of 12/31/2007
($ per 1,000)

Capital Stock	$8,780
Premiums thereon	23,760
Total Capital Contributions from Parent (since 2006)	3,673
Contribution from Parent Company for Purchase of Generation Assets	140,061
Total Capital Stock and Additional Paid-in-Capital	$176,274

(3) Terms of preference of preferred stock whether cumulative or participating, or on dividends or assets or otherwise.

There is no preferred stock authorized, issued or outstanding.

(4) Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name or mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of indebtedness actually secured, together with any sinking fund provision.

Duke Energy Kentucky does not have any assets secured by a mortgage.

(5) Amount of bonds authorized, and amount issued, giving the nave of the public utility which issued the same, describing each class separately, and giving the date of issue, face value, rate of interest, date of maturity and how secured, together with the amount of interest paid thereon during the last fiscal year.

The Company has two outstanding issues of unsecured senior debentures issued under an Indenture dated July 1, 1995 between itself and the The Bank of New York Trust Company, N.A., as Trustee, (Successor Trustee to Fifth Third Bank), as supplemented by four Supplemental Indentures. The Indenture, as amended, allows the Company to issue debt securities in an unlimited amount from time to time. The Debentures issued under the Indenture are as follows:

Supplemental Indenture	Date of Issue	Principal Amount Authorized and Issued	Principal Amount Outstanding	Rate of Interest	Date of Maturity	Interest Paid Year 2007
2nd Supplemental	4/30/1998	20,000,000	20,000,000	6.500%	4/30/2008	1,300,000
4th Supplemental	9/17/1999	20,000,000	20,000,000	7.875%	9/15/2009	1,575,000
			40,000,000			2,875,000

The Company has three outstanding issues of unsecured senior debentures issued under an Indenture dated December 1, 2004, between itself and Deutsche Bank Trust Company Americas, as Trustee, as supplemented by one Supplemental Indenture. The Indenture allows the Company to issue debt securities in an unlimited amount from time to time. The Debentures issued under the Indenture are the following:

Supplemental Indenture	Date of Issue	Principal Amount Authorized and Issued	Principal Amount Outstanding	Rate of Interest	Date of Maturity	Interest Paid Year 2007
Not Applicable	12/9/2004	40,000,000	40,000,000	5.000%	12/14/2014	2,000,000
1st Supplemental	3/10/2006	50,000,000	50,000,000	5.750%	3/10/2016	2,875,000
1st Supplemental	3/10/2006	65,000,000	65,000,000	6.200%	3/10/2036	4,030,000
			155,000,000			8,905,000

(6) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest, in whose favor, together with amount of interest paid thereon during the last fiscal year.

Not applicable. Duke Energy Kentucky has no outstanding notes other than the short term notes permitted under the terms of the Utility Money Pool Agreement approved by the Commission.

(7) Other indebtedness, giving same by classes and describing security, if any, with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.

The Company has two series of Pollution Control Revenue Refunding Bonds issued under a Trust Indenture dated as of August 1, 2006, between the County of Boone, Kentucky and Deutsche Bank National Trust Company as Trustee. The Company's obligation to make payments equal to debt service on the Bonds is evidenced by a Loan Agreement dated as of August 1, 2006 between the County of Boone, Kentucky and Duke Energy Kentucky. The Bonds issued under the Indentures are as follows:

Indenture	Date of Issue	Principal Amount Authorized and Issued	Principal Amount Outstanding	Rate of Interest	Date of Maturity	Interest Paid Year 2007
Series 2006A	8/1/2006	50,000,000	50,000,000	3.89% [1]	8/1/2027	1,943,056
Series 2006B	8/1/2006	26,720,000	26,720,000	3.82%[1][2]	8/1/2027	1,020,704
			76,720,000			2,963,760

[1] The interest rate represents the average floating-rate of interest on the bonds for 2007. The interest rate on the bonds resets every 35 days through an auction process.

[2] The variable-rate debt was swapped to a fixed rate of 3.86% for the life of the debt.

(8) Rate and amount of dividends paid during the last five (5) previous fiscal years, and the amount of capital stock on which dividends were paid each year.

Year Ending	Dividends per Share		No. of Shares	Par Value of Stock
	Per Share	Total		
December 31, 2003	$10.77	6,304,036	585,333	8,779,995
December 31, 2004	24.94	14,600,000	585,333	8,779,995
December 31, 2005	17.03	9,965,521	585,333	8,779,995
December 31, 2006	0.00	0	585,333	8,779,995
December 31, 2007	0.00	0	585,333	8,779,995

(9) Detailed Income Statement and Balance Sheet

See the attached pages for the detailed Income Statement for the twelve months ended December 31, 2007 and the detailed Balance Sheet as of December 31, 2007.

DUKE ENERGY KENTUCKY, INC.
STATEMENTS OF OPERATIONS

	Year To Date December 31, 2007	2006
	(in thousands)	
Operating Revenues		
Electric	$ **351,846**	$ 267,917
Gas	**140,838**	136,535
Total Operating Revenues	**492,684**	404,452
Operating Expenses		
Fuel used in electric generation and purchased power	**153,883**	116,314
Operation, maintenance and other	**127,129**	115,806
Natural gas purchased	**94,931**	92,105
Depreciation and amortization	**39,869**	37,750
Property and other taxes	**11,589**	10,067
Total Operating Expenses	**427,401**	372,042
Operating Income	**65,283**	32,410
Other Income and Expenses, net	**4,052**	2,104
Interest Expense	**17,414**	15,776
Income Before Income Taxes	**51,921**	18,738
Income Tax Expense	**18,452**	8,015
Net Income	$ **33,469**	$ 10,723

See Notes to Financial Statements

DUKE ENERGY KENTUCKY, INC.
BALANCE SHEETS

ASSETS	December 31, 2007	December 31, 2006
	(in thousands)	
Current Assets		
Cash and cash equivalents	$ 9,302	$ 6,593
Receivables (net of allowance for doubtful accounts of $315 at December 31, 2007 and $242 at December 31, 2006)	44,043	32,768
Inventory	27,391	29,002
Other	19,372	11,127
Total current assets	100,108	79,490
Investments and Other Assets		
Intangible assets	7,064	12,470
Other	3,430	1,541
Total investments and other assets	10,494	14,011
Property, Plant, and Equipment		
Cost	1,499,357	1,451,463
Less accumulated depreciation and amortization	617,530	599,625
Net property, plant, and equipment	881,827	851,838
Regulatory Assets and Deferred Debits		
Deferred debt expense	5,445	5,827
Regulatory Assets	17,093	29,167
Total regulatory assets and deferred debits	22,538	34,994
Total Assets	$ 1,014,967	$ 980,333

See Notes to Financial Statements

DUKE ENERGY KENTUCKY, INC.
BALANCE SHEETS

LIABILITIES AND COMMON STOCKHOLDER'S EQUITY

	December 31, 2007	December 31, 2006
	(in thousands)	
Current Liabilities		
Accounts payable	$ 53,989	$ 45,122
Notes payable	27,470	42,603
Taxes accrued	16,777	6,603
Interest accrued	3,553	2,808
Current maturities of long-term debt	21,678	1,318
Other	12,807	11,128
Total current liabilities	136,274	109,582
Long-term Debt	265,334	283,192
Deferred Credits and Other Liabilities		
Deferred income taxes	153,315	149,016
Investment tax credit	5,581	6,634
Accrued pension and other postretirement benefit costs	22,505	36,497
Regulatory liabilities	33,901	29,432
Asset retirement obligations	6,179	8,266
Other	6,332	8,366
Total deferred credits and other liabilities	227,813	238,211
Commitments and Contingencies (Note 14)		
Common Stockholder's Equity		
Common stock – $15.00 par value; 1,000,000 shares authorized and 585,333 shares outstanding at December 31, 2007 and December 31, 2006	8,780	8,780
Paid-in capital	167,494	164,344
Retained earnings	210,270	176,965
Accumulated other comprehensive loss	(998)	(741)
Total common stockholder's equity	385,546	349,348
Total Liabilities and Common Stockholder's Equity	*$ 1,014,967*	*$ 980,333*

See Notes to Financial Statements

DUKE ENERGY KENTUCKY
STATEMENT OF CHANGES IN COMMON STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME
(in thousands)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) Net (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss) Minimum Pension Liability Adjustment	Total Common Stockholder's Equity
Balance at December 31, 2005	$ 8,780	$ 23,760	$ 166,242	$ -	$ (2,323)	$ 196,459
Net income			10,723			10,723
Other comprehensive income, net of tax effect of ($1,011)						
Minimum pension liability adjustment					(767)	(767)
Cash flow hedges				(741)		(741)
Total comprehensive income						9,215
Contribution from parent company for reallocation of taxes		523				523
Adjustment due to SFAS No. 158 adoption					3,090	3,090
Contribution from parent company for purchase of generating assets		140,061				140,061
Balance at December 31, 2006	$ 8,780	$ 164,344	$ 176,965	$ (741)	$ -	$ 349,348
Net income			33,469			33,469
Other comprehensive income, net of tax effect of ($146)						
Cash flow hedges				(257)		(257)
Total comprehensive income						33,212
Capital contribution from parent		3,150				3,150
Adjustment due to SFAS No. 158 adoption			(164)			(164)
Balance at December 31, 2007	$ 8,780	$ 167,494	$ 210,270	$ (998)	$ -	$ 385,546

See Notes to Financial Statements

DUKE ENERGY KENTUCKY, INC.
STATEMENTS OF CASH FLOWS

		Twelve Months Ended December 31, 2007	2006
		(in thousands)	
Cash Flows from Operating Activities			
Net income		$ 33,469	$ 10,723
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		40,475	37,750
Losses (gains) on sales of other assets		50	(104)
Deferred income taxes		4,701	8,481
Regulatory asset/liability amortization		1,889	3,969
Contribution to company sponsored pension plan		(9,696)	(2,330)
Accrued pension and postretirement benefit costs		3,931	4,113
(Increase) decrease in:			
Net realized and unrealized mark-to-market and hedging transactions		(27)	1,653
Receivables		(9,057)	4,684
Inventory		1,611	(1,556)
Other current assets		(6,909)	2,849
Increase (decrease) in:			
Accounts payable		9,686	(8,817)
Taxes accrued		7,362	(166)
Other current liabilities		3,499	2,513
Regulatory asset/liability deferrals	*v)*	(4,187)	(4,016)
Other assets		5,308	8,466
Other liabilities	*i)*	(4,639)	(7,327)
Net cash provided by operating activities		77,466	60,885
Cash Flows from Investing Activities			
Capital expenditures		(64,199)	(65,096)
Purchases of emission allowances		(343)	(23,289)
Sale of emission allowances		343	4,748
Net cash used in investing activities		(64,199)	(83,637)

Cash Flows from Financing Activities				
Issuance of long-term debt		**3,067**		194,126
Redemption of long-term debt		**(1,492)**		(76,939)
Notes payable and commercial paper		**(15,133)**		(93,454)
Contribution from parent		**3,150**		523
Other		**(150)**		(4,787)
Net cash (used in) provided by financing activities	*v)*	**(10,558)**		19,469
Net increase (decrease) in cash and cash equivalents		**2,709**		(3,283)
Cash and cash equivalents at beginning of period		**6,593**		9,876
Cash and cash equivalents at end of period	**$**	**9,302**	$	6,593
Supplemental Disclosure of Cash Flow Information				
Cash paid during the period for:				
Interest (net of amount capitalized)	**$**	**16,669**	$	13,913
Income taxes	**$**	**(515)**	$	5,950
Non-cash financing and investing activities:				
Equity contribution from parent company for acquisition of net generating assets	**$**	**-**	$	140,061
Allowance for funds used during construction (AFUDC) – equity component	**$**	**219**	$	626
Accrued capital expenditures	**$**	**2,885**	$	3,001