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John J. Finnigan, Jr.  
Associate General Counsel

**VIA OVERNIGHT MAIL**

February 26, 2007

Mr. Michael F. Burford  
Director of Filings Division  
Kentucky Public Service Commission  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, KY 40602

RECEIVED

FEB 27 2007

PUBLIC SERVICE  
COMMISSION

Re: *In the Matter of The Application of Duke Energy Kentucky, Inc. for an Order to Enter Into  
Up To \$25,000, 000 Principal Amount of Capital Lease Obligations*  
Case No. 2006-00562

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Dear Mr. Burford:

I have enclosed a copy of a capital lease entered into between Duke Energy Kentucky, Inc. ("DE-Kentucky") and Bank of America Leasing & Capital, LLC for gas and electric meters.

Under the Commission's January 31, 2007 Order in the present case, DE-Kentucky is required to file this lease with the Commission. The information required by the Commission's January 31, 2007 Order is as follows:

<b>Starting date of Lease:</b>	December 28, 2006
<b>Period of the Lease:</b>	December 28, 2006 through December 28, 2016
<b>Description of the property:</b>	Gas and electric meters
<b>Name/Address of lessor:</b>	Bank America Leasing & Capital LLC One Financial Plaza Providence, Rhode Island 02903-2305
<b>Dollar Amount of Lease:</b>	\$2,406,335.77.
<b>Interest rate:</b>	5.00% based on the early purchase option available after 108 months

**Fees and expenses:** None

**Participation agreements:** Bank of America assigned the lease to Winmark Limited Funding, LLC. A copy of the assignment agreement is enclosed.

Finally, the Commission's Order required DE-Kentucky to report on the difference in financing costs between a capital lease versus other types of available financing. Attachment A to this letter provides this analysis and shows that a capital lease resulted in lower financing costs than long-term debt.

Please accept this capital lease agreement for filing. Please return a file-stamped copy of this letter in the enclosed envelope. Thank you for your cooperation in this matter.

Very truly yours,



John J. Finnigan, Jr.  
Associate General Counsel

10-Year Treasury	4.60% as of 12/26
Lease Rate	5.000%
Spread over Treasury	40 bps
Long-term debt rate	5.600%
Spread over Treasury	100 bps

		5.000%
Funding	12/28/2006	-100
1	1/28/2007	1.0262
2	2/28/2007	1.0262
3	3/28/2007	1.0262
4	4/28/2007	1.0262
5	5/28/2007	1.0262
6	6/28/2007	1.0262
7	7/28/2007	1.0262
8	8/28/2007	1.0262
9	9/28/2007	1.0262
10	10/28/2007	1.0262
11	11/28/2007	1.0262
12	12/28/2007	1.0262
13	1/28/2008	1.0262
14	2/28/2008	1.0262
15	3/28/2008	1.0262
16	4/28/2008	1.0262
17	5/28/2008	1.0262
18	6/28/2008	1.0262
19	7/28/2008	1.0262
20	8/28/2008	1.0262
21	9/28/2008	1.0262
22	10/28/2008	1.0262
23	11/28/2008	1.0262
24	12/28/2008	1.0262
25	1/28/2009	1.0262
26	2/28/2009	1.0262
27	3/28/2009	1.0262
28	4/28/2009	1.0262
29	5/28/2009	1.0262
30	6/28/2009	1.0262
31	7/28/2009	1.0262
32	8/28/2009	1.0262
33	9/28/2009	1.0262
34	10/28/2009	1.0262
35	11/28/2009	1.0262
36	12/28/2009	1.0262
37	1/28/2010	1.0262
38	2/28/2010	1.0262
39	3/28/2010	1.0262
40	4/28/2010	1.0262
41	5/28/2010	1.0262

42	6/28/2010	1.0262
43	7/28/2010	1.0262
44	8/28/2010	1.0262
45	9/28/2010	1.0262
46	10/28/2010	1.0262
47	11/28/2010	1.0262
48	12/28/2010	1.0262
49	1/28/2011	1.0262
50	2/28/2011	1.0262
51	3/28/2011	1.0262
52	4/28/2011	1.0262
53	5/28/2011	1.0262
54	6/28/2011	1.0262
55	7/28/2011	1.0262
56	8/28/2011	1.0262
57	9/28/2011	1.0262
58	10/28/2011	1.0262
59	11/28/2011	1.0262
60	12/28/2011	1.0262
61	1/28/2012	1.0262
62	2/28/2012	1.0262
63	3/28/2012	1.0262
64	4/28/2012	1.0262
65	5/28/2012	1.0262
66	6/28/2012	1.0262
67	7/28/2012	1.0262
68	8/28/2012	1.0262
69	9/28/2012	1.0262
70	10/28/2012	1.0262
71	11/28/2012	1.0262
72	12/28/2012	1.0262
73	1/28/2013	1.0262
74	2/28/2013	1.0262
75	3/28/2013	1.0262
76	4/28/2013	1.0262
77	5/28/2013	1.0262
78	6/28/2013	1.0262
79	7/28/2013	1.0262
80	8/28/2013	1.0262
81	9/28/2013	1.0262
82	10/28/2013	1.0262
83	11/28/2013	1.0262
84	12/28/2013	1.0262
85	1/28/2014	1.0262
86	2/28/2014	1.0262
87	3/28/2014	1.0262
88	4/28/2014	1.0262
89	5/28/2014	1.0262
90	6/28/2014	1.0262
91	7/28/2014	1.0262
92	8/28/2014	1.0262
93	9/28/2014	1.0262

94	10/28/2014	1.0262		
95	11/28/2014	1.0262		
96	12/28/2014	1.0262		
97	1/28/2015	1.0262		
98	2/28/2015	1.0262		
99	3/28/2015	1.0262		
100	4/28/2015	1.0262		
101	5/28/2015	1.0262		
102	6/28/2015	1.0262		
103	7/28/2015	1.0262		
104	8/28/2015	1.0262		
105	9/28/2015	1.0262		
106	10/28/2015	1.0262		
107	11/28/2015	1.0262		
108	12/28/2015	18.1062	1.0262	17.08
			Rent	EBO Amt

# Bank of America



One Financial Plaza  
Providence, Rhode Island 02903

## AMENDMENT

This Amendment (this "Amendment") is attached to and made a part of the Documents (hereinafter defined) by and between the undersigned Lessor and Lessee.

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree to amend the Documents by changing the Lessee's name from The Union Light, Heat and Power Company to Duke Energy Kentucky, Inc. on all of the Documents.

As used herein "Documents" shall mean any and all documents executed by and between The Union Light, Heat and Power Company and Banc of America Leasing & Capital, LLC, successor-by-merger to Fleet Capital Corporation, including but not limited to Master Equipment Lease Agreement No. 32862 dated as of February 11, 1999 together with all exhibits, addenda, amendments, schedules, certificates, riders and other documents and instruments executed and delivered in connection therewith.

Attached hereto is a copy of the document amending Lessee's charter and effecting the referenced name change. By executing this Amendment, Lessee represents to Lessor that the undersigned Lessee is the original signatory to the Documents and that no new entity has been created in connection with the referenced name change.

All capitalized terms used herein and not defined herein shall have the meanings set forth or referred to in the Documents. Except as specifically set forth herein, all of the terms of the Documents remain in full force and effect and are hereby ratified and affirmed. To the extent that the terms of this Amendment conflict with the terms of the Documents, the terms of this Amendment shall control.

Dated as of: September 14, 2006

**LESSOR:**  
**BANC OF AMERICA LEASING & CAPITAL,**  
**LLC, SUCCESSOR-BY-MERGER TO**  
**FLEET CAPITAL CORPORATION**

By: *Janet E. Ganley*

Name: **JANET E. GANLEY**  
**ASSISTANT VICE PRESIDENT**

Title: \_\_\_\_\_

**LESSEE:**  
**DUKE ENERGY KENTUCKY, INC.**

By: *Stephen G. De May*

Name: Stephen G. De May

Title: Assistant Treasurer

**Bank of America**



**LEASE SCHEDULE NO. 40307-11500-008**  
(True Lease Schedule)

One Financial Plaza  
Providence, Rhode Island 02903-2305

Lessee: **DUKE ENERGY KENTUCKY, INC.**  
Address: 139 East Fourth Street  
Cincinnati, OH 45202

1 This Lease Schedule No. 40307-11500-008 dated as of December 26, 2006 is entered into pursuant to and incorporates by this reference, all of the terms and provisions of that certain Master Equipment Lease Agreement No. 32862 dated as of February 11, 1999 (the "Master Lease"), for the lease of the Equipment described in **Schedule A** attached hereto. This Lease Schedule shall constitute a separate, distinct and independent lease of the Equipment and the contractual obligation of Lessee. References to the "the Lease" or "this Lease" shall mean and refer to this Lease Schedule, together with the Master Lease and all exhibits, addenda, schedules, certificates, riders and other documents and instruments executed and delivered in connection with this Lease Schedule, all as the same may be amended or modified from time to time. All capitalized terms used herein and not defined herein shall have the meanings set forth or referred to in the Master Lease. To the extent the terms and provisions of this Lease Schedule differ with the terms and provisions of the Master Lease, the terms and provisions of this Lease Schedule shall control. By its execution and delivery of this Lease Schedule, Lessee hereby reaffirms all of the representations, warranties and covenants contained in the Master Lease, as of the date hereof, and further represents and warrants to Lessor that no Event of Default, and no event or condition which with notice or the passage of time or both would constitute an Event of Default, has occurred and is continuing as of the date hereof.

2 **ACQUISITION COST.** The Acquisition Cost of the Equipment is: \$2,406,335.77.

3. (a) **INITIAL TERM.** The Initial Term shall commence on the date hereof and shall continue for a period of 120 months after the "Lease Term Commencement Date" set forth in the Acceptance Certificate applicable to this Lease Schedule. The Equipment shall be deemed to have been accepted by Lessee for all purposes under this Lease upon Lessor's receipt of an Acceptance Certificate with respect to such Equipment, executed by Lessee after receipt of all other documentation required by Lessor with respect to such Equipment. The "Lease Term" of this Lease shall be comprised of the Initial Term, plus any renewal or extended term applicable in accordance with the terms of the Lease.

(b) **RENTAL PAYMENTS.** Lessee shall pay Lessor 120 consecutive rental payments in the amounts set forth in the schedule below ("Rental Payments), plus any applicable sales/use taxes, commencing on the "Rental Payment Commencement Date" set forth in the Acceptance Certificate and MONTHLY thereafter for the remaining Lease Term. Each Rental Payment shall be payable on the same day of the month as the Rental Payment Date in each succeeding rental period during the remaining Lease Term (each, a "Rental Payment Date"):

<u>Number of Rental Payments</u>	<u>Amount of Each Rental Payment</u>
120	\$ 24,693 82

4 **EQUIPMENT LOCATION(S).** The Equipment will be located at the location(s) specified in **Schedule A** hereto. Lessee shall promptly upon request of Lessor provide a written report detailing the location of each unit of Equipment subject to this Lease.

5. Lessor will invoice Lessee for all sales, use and/or personal property taxes as and when due and payable in accordance with applicable law, unless Lessee delivers to Lessor a valid exemption or self assessment certificate with respect to such taxes. Delivery of such certificate shall constitute Lessee's representation and warranty that no such taxes shall become due and

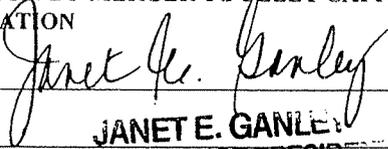
payable with respect to the Equipment, and Lessee shall indemnify and hold harmless Lessor from and against any and all liability or damages, including late charges and interest which Lessor may incur by reason of the assessment of such taxes.

6. The Rental Payments may change for Equipment accepted after December 30, 2006.

Dated as of: December 26, 2006

**BANC OF AMERICA LEASING & CAPITAL, LLC  
SUCCESSOR-BY-MERGER TO FLEET CAPITAL  
CORPORATION**

By: \_\_\_\_\_



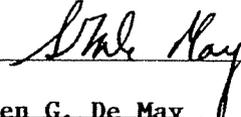
Name: \_\_\_\_\_

**JANET E. GANLEY  
ASSISTANT VICE PRESIDENT**

Title: \_\_\_\_\_

**DUKE ENERGY KENTUCKY, INC.**

By: \_\_\_\_\_



Name: \_\_\_\_\_

**Stephen G. De May**

Title: \_\_\_\_\_

**Assistant Treasurer**



**SCHEDULE A EQUIPMENT**

The following documents are attached to and made a part hereof: True Lease Schedule No : 40307-11500-008, Acceptance Certificate, Warranty Bill of Sale and UCC Financing Statement

with: **DUKE ENERGY KENTUCKY, INC.**

Recovery Period: 5 Years

MFG	DESCRIPTION	QUANTITY	UNIT COST	AMOUNT
Gas and Electric Meters and Generators as follows:				
	Transaction Description			
DRESSER INC	METER, GAS SERVICE, ROTARY, 7			-4
DRESSER ROOT METER	METER, GAS SERVICE, ROTARY, 1			-1
DRESSER ROOT METER	METER, GAS SERVICE, ROTARY, 1			1
DRESSER ROOT METER	METER, GAS SERVICE, ROTARY, 1			-3
DRESSER INC	METER, GAS SERVICE, ROTARY, 7			1
DRESSER INC	METER, GAS SERVICE, ROTARY, 5			15
DRESSER INC	METER, GAS SERVICE, ROTARY, 7			4
DRESSER INC	METER, GAS SERVICE, ROTARY, 5			-15
DRESSER INC	METER, GAS SERVICE, ROTARY, 7			-1
DRESSER ROOT METER	METER, GAS SERVICE, ROTARY, 1			3
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			60
DRESSER ROOT METER	METER, GAS SERVICE, ROTARY, 3			12
NOT AVAILABLE	KIT, , GAS, 175/250			800
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			150
NOT AVAILABLE	KIT, , GAS, 175/250			650
NOT AVAILABLE	KIT, , GAS, 175/250			1,000
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			150
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			1,000
DRESSER ROOT METER	METER, GAS SERVICE, ROTARY, 11			7
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			1,500
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			50
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			1,000
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			150
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			50
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			75
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			60
DRESSER INC	METER, GAS SERVICE, ROTARY, 5			11
DRESSER INC	METER, GAS SERVICE, ROTARY, 5			4
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			120
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			86
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			250
NOT AVAILABLE	KIT, , GAS, 175/250			450
NOT AVAILABLE	KIT, , GAS, 175/250			300
DRESSER ROOT METER	METER, GAS SERVICE, ROTARY, 3			15
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			195
DRESSER ROOT METER	METER, GAS SERVICE, ROTARY, 1			1
AMERICAN METER CO	METER, GAS SERVICE, DIAPHRAGM,			500
NOT AVAILABLE	KIT, , GAS, 175/250			200
NOT AVAILABLE	KIT, , GAS, 175/250			200
DRESSER ROOT METER	METER, GAS SERVICE, ROTARY, 3			4
NOT AVAILABLE	KIT, , GAS, 175/250			50
NOT AVAILABLE	KIT, , GAS, 175/250			200.00
NOT AVAILABLE	KIT, , GAS, 175/250			200.00
NOT AVAILABLE	KIT, , GAS, 175/250			50.00
NOT AVAILABLE	KIT, , GAS, 175/250			450.00
NOT AVAILABLE	KIT, , GAS, 175/250			300.00



SCHEDULE A EQUIPMENT

The following documents are attached to and made a part hereof: True Lease Schedule No : 40307-11500-008, Acceptance Certificate, Warranty Bill of Sale and UCC Financing Statement

with: **DUKE ENERGY KENTUCKY, INC.**

Recovery Period: 5 Years

INVENTOR	ITEM DESCRIPTION	TRANSFER
NOT AVAILABLE	KIT, , GAS, 175/250	1,000.00
NOT AVAILABLE	KIT, , GAS, 175/250	800.00
NOT AVAILABLE	KIT, , GAS, 175/250	650.00
SCHLUMBERGER RMS	REGULATOR, GAS, 1IN X 1IN, FPT	96
SCHLUMBERGER RMS	REGULATOR, GAS, 3/4IN X 1IN, F	16
FISHER CONTROLS INTN'L IN	VALVE, RELIEF, 1FT INLET, 300	
FISHER CONTROLS INTN'L IN	VALVE, RELIEF, 1FT INLET, 300	
SCHLUMBERGER RMS	REGULATOR, GAS, 1-1/4IN X 1-1/	12
FISHER CONTROLS INTN'L IN	VALVE, RELIEF, 1FT INLET, 300	
FISHER CONTROLS INTN'L IN	REGULATOR, GAS, 1-1/2IN, NFPT,	20
ADVANCE ENGINEERING CORP.	KIT, , GAS SERVICE METER BRACK	800
FISHER CONTROLS INTN'L IN	REGULATOR, GAS, 1IN, FPT, 1/8I	4
ACTARIS US GAS, INC.	REGULATOR, GAS, 1-1/2IN, NFPT,	20
FISHER CONTROLS INTN'L IN	VALVE, RELIEF, 1FT INLET, 300	
FISHER CONTROLS INTN'L IN	REGULATOR, GAS, 1IN, FPT, 1/8I	50
FISHER CONTROLS INTN'L IN	SF&H LOADINGS - INV	
FISHER CONTROLS INTN'L IN	SF&H LOADINGS - INV	
SCHLUMBERGER RMS	REGULATOR, GAS, 3/4IN X 1IN, F	24
ADVANCE ENGINEERING CORP.	KIT, , GAS SERVICE METER BRACK	600
ADVANCE ENGINEERING CORP.	KIT, , GAS SERVICE METER BRACK	1,000
ADVANCE ENGINEERING CORP.	KIT, , GAS SERVICE METER BRACK	900
ACTARIS US GAS, INC.	REGULATOR, GAS, 1-1/2IN, NPT,	6
SCHLUMBERGER RMS	REGULATOR, GAS, 3/4IN X 1IN, F	24
SCHLUMBERGER RMS	REGULATOR, GAS, 1-1/4IN X 1-1/	12
FISHER CONTROLS INTN'L IN	VALVE, RELIEF, 1FT INLET, 300	
ADVANCE ENGINEERING CORP.	KIT, , 425 METER BRACKET- 8IN	72
FISHER CONTROLS INTN'L IN	VALVE, RELIEF, 1FT INLET, 300	
ITRON INC	METER, ELECTRICAL SERVICE, KWH	-96.
ITRON INC	METER, ELECTRICAL SERVICE, NO	-96.
ITRON INC	METER, ELECTRICAL SERVICE, NO	96.
ITRON INC	METER, ELECTRICAL SERVICE, KWH	96.
ANCHOR/DARLING VALVE CO	PLATE, , HUB CLOSING, STEEL, 3	
	SF&H LOADINGS - AP	
	MOTOROLA INC	
ANCHOR/DARLING VALVE CO	PLATE, , HUB CLOSING, STEEL, 3	
ITRON INC	METER, ELECTRICAL SERVICE, KWH	-52.
ITRON INC	METER, ELECTRICAL SERVICE, TRA	-28.
ITRON INC	METER, ELECTRICAL SERVICE, SV4	0.
ITRON INC	METER, ELECTRICAL SERVICE, KWH	52.
ITRON INC	METER, ELECTRICAL SERVICE, SV4	136.
ITRON INC	METER, ELECTRICAL SERVICE, TRA	28.
ITRON INC	METER, ELECTRICAL SERVICE, NON	96.
ITRON INC	METER, ELECTRICAL SERVICE, NON	768.
EKSTROM	ADAPTER, , METER BASE, PLASTIC	
EKSTROM	ADAPTER, , METER BASE, PLASTIC	
SOLID STATE INSTRUMENT	RELAY, , DUAL PULSE ISOLATION,	
SOLID STATE INSTRUMENT	RELAY, , DUAL PULSE ISOLATION,	
EKSTROM	ADAPTER, , METER BASE, PLASTIC	

**Bank of America**



SCHEDULE A EQUIPMENT

The following documents are attached to and made a part hereof: True Lease Schedule No : 40307-11500-008, Acceptance Certificate, Warranty Bill of Sale and UCC Financing Statement

with: **DUKE ENERGY KENTUCKY, INC.**

Recovery Period: 5 Years

DEBIT	FULL DESCRIPTION	CREDIT
ITRON INC	METER, ELECTRICAL SERVICE, NON	480.
ITRON INC	METER, ELECTRICAL SERVICE, KWH	0.
ITRON INC	METER, ELECTRICAL SERVICE, SV4	176.
ITRON INC	METER, ELECTRICAL SERVICE, NON	672.
ITRON INC	METER, ELECTRICAL SERVICE, NON	632.
ITRON INC	METER, ELECTRICAL SERVICE, KWH	
ITRON INC	METER, ELECTRICAL SERVICE, SV4	176.
ITRON INC	METER, ELECTRICAL SERVICE, SV4	-176.
ITRON INC	METER, ELECTRICAL SERVICE, NON	576.
	PLATE, , HUB CLOSING, STEEL, 3	
	PLATE, , HUB CLOSING, STEEL, 3	
ITRON INC	METER, ELECTRICAL SERVICE, NON	192
ITRON INC	METER, ELECTRICAL SERVICE, NON	288
ITRON INC	METER, ELECTRICAL SERVICE, NON	192
ITRON INC	METER, ELECTRICAL SERVICE, NON	52
ITRON INC	METER, ELECTRICAL SERVICE, DE	40
ITRON INC	METER, ELECTRICAL SERVICE, NO	24
ITRON INC	METER, ELECTRICAL SERVICE, KWH	96
ITRON INC	METER, ELECTRICAL SERVICE, LOA	32
ITRON INC	METER, ELECTRICAL SERVICE, NO	20
ITRON INC	METER, ELECTRICAL SERVICE, TRA	32
ITRON INC	METER, ELECTRICAL SERVICE, DE	8

BANC OF AMERICA LEASING & CAPITAL, LLC  
SUCCESSOR-BY-MERGER TO FLEET CAPITAL  
CORPORATION

DUKE ENERGY KENTUCKY, INC.

By:

By:

Name: **JANET E. GANLEY**  
Title: **ASSISTANT VICE PRESIDENT**

Name: **Stephen G. De May**  
Title: **Assistant Treasurer**



ACCEPTANCE CERTIFICATE

One Financial Plaza  
Providence, Rhode Island 02903-2305

This Acceptance Certificate (this "Acceptance Certificate") is attached to and made a part of that certain Lease Schedule No. 40307-11500-008, dated as of December 26, 2006 (the "Lease Schedule"), by and between the undersigned parties. All capitalized terms used herein and not defined herein shall have the meanings set forth or referred to in the Lease Schedule. To the extent the terms set forth in this Acceptance Certificate differ or conflict with any of the terms set forth in the Lease, the terms set forth in this Acceptance Certificate shall control.

1. Lessee acknowledges and agrees that each item of Equipment set forth on Schedule A hereto (collectively, the "Equipment") is hereby unconditionally and irrevocably accepted by Lessee for all purposes under the Lease at the locations specified in Schedule A hereto, and hereby agrees to faithfully perform all of its obligations under the Lease as of the date hereof (the "Acceptance Date"). Lessee hereby authorizes and directs Lessor (a) to make payment to each vendor of the Equipment pursuant to such vendor's invoice or any purchase order, purchase agreement or supply contract with such vendor, receipt and approval of which are hereby reaffirmed by Lessee, and/or (b) if Lessee has previously paid such vendors such amounts pursuant to any Agency Agreement between Lessor and Lessee, to reimburse Lessee in accordance with such Agency Agreement in lieu of paying such vendor invoices and for Lessee's actual installation costs of the Equipment which are reasonably acceptable to Lessor.

2. By its execution and delivery of this Acceptance Certificate, Lessee hereby reaffirms all of the representations, warranties and covenants contained in the Lease as of the date hereof, and further represents and warrants to Lessor that no Event of Default, and no event or condition which with notice or the passage of time or both would constitute an Event of Default, has occurred and is continuing as of the date hereof. Lessee further certifies to Lessor that Lessee has selected the Equipment and has received and approved the purchase order, purchase agreement or supply contract under which the Equipment will be acquired for all purposes of the Lease.

3. Lessee hereby represents and warrants that the Equipment has been delivered and is in operating condition or in a condition capable of operating and performing the operation for which it is intended to the satisfaction of the Lessee.

4. The LEASE TERM COMMENCEMENT DATE is the 28<sup>TH</sup> day of December, 2006

5. The RENTAL PAYMENT COMMENCEMENT DATE is the 28<sup>TH</sup> day of January, 2007.

6. All terms and provisions of the Lease Schedule shall remain in full force and effect, except as otherwise provided below:

- ACQUISITION COST: \$ \_\_\_\_\_

- LEASE TERM: \_\_\_\_\_ months

- RENTAL PAYMENTS: Number of Rental Payments                      Rental Payment Amount

Dated: December 28, 2006  
Agreed and Accepted:

BANC OF AMERICA LEASING & CAPITAL, LLC  
SUCCESSOR-BY-MERGER TO FLEET CAPITAL  
CORPORATION

By: Janet E. Ganley  
Name: JANET E. GANLEY  
Title: ASSISTANT VICE PRESIDENT

DUKE ENERGY KENTUCKY, INC.

By: Stephen G. De May  
Name: Stephen G. De May  
Title: Assistant Treasurer



EARLY PURCHASE OPTION RIDER  
(single option)

One Financial Plaza  
Providence, Rhode Island 02903-2448

This Early Purchase Option Rider (this "Rider") is attached to and made a part of that certain Lease Schedule No. 40307-11500-008, dated as of December 26, 2006 (the "Lease Schedule"), by and between the undersigned parties.

So long as no Event of Default has occurred and is continuing under the Lease, and upon at least 90 days prior written notice to Lessor, Lessee shall have the right to terminate the Lease Term for all but not less than all of the Equipment on the Rental Payment Date for Rental Payment Number 108 (the "Termination Date"). Lessee shall pay to Lessor on the Termination Date an amount equal to: (a) all Rental Payments, late charges and other amounts due and owing under the Lease; plus (b) all taxes, assessments and other charges due or payable in connection with the sale of the Equipment to Lessee; plus (c) 17.08000% of the Acquisition Cost of the Equipment

Provided that Lessor shall have received all amounts payable hereunder on the Termination Date, and that no Event of Default then exists and is continuing under the Lease, Lessor shall convey all of its right, title and interest in and to the Equipment to Lessee on the Termination Date, on an "AS-IS," "WHERE-IS" BASIS WITHOUT REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, and without recourse to Lessor, except that the Equipment shall be free and clear of all liens created by Lessor.

In the event Lessee shall not pay all amounts due hereunder on the Termination Date, then the Lease Term for the Equipment shall continue in full force and effect, and this Rider shall be null and void and of no further force and effect.

All capitalized terms used herein and not defined herein shall have the meanings set forth or referred to in the Lease Schedule. Except as specifically set forth herein, all of the terms and conditions of the Lease shall remain in full force and effect and are hereby ratified and affirmed. To the extent that the provisions of this Rider conflict with any provisions contained in the Lease, the provisions of this Rider shall control.

Dated as of: December 26, 2006

BANC OF AMERICA LEASING & CAPITAL, LLC  
SUCCESSOR-BY-MERGER TO FLEET CAPITAL  
CORPORATION

By: *Janet E. Ganley*

Name: JANET E. GANLEY

Title: ASSISTANT VICE PRESIDENT

DUKE ENERGY KENTUCKY, INC.

By: *Stephen G. DeMay*

Name: Stephen G. DeMay

Title: Assistant Treasurer



## PURCHASE OPTION RIDER

One Financial Plaza  
Providence, Rhode Island 02903-2448

This Purchase Option Rider (this "**Rider**") is attached to and made a part of that certain Lease Schedule No. 40307-11500-008, dated as of December 26, 2006 (the "**Lease Schedule**"), by and between the undersigned parties.

1. **Purchase Option.** If no Event of Default (or event or condition which, with the passage of time or giving of notice, or both, would become such an Event of Default) shall have occurred and be continuing, and the Lease shall not have been earlier terminated, Lessee shall have the option to purchase (the "**Purchase Option**") all, but not less than all, of the Equipment at the expiration of the Lease Term for an amount, payable in immediately available funds on the last day of the Lease Term, equal to: (a) all Rental Payments, late charges and other amounts due and owing under the Lease; plus (b) all taxes, assessments and other charges due or payable in connection with the sale of the Equipment to Lessee; plus (c) the Purchase Option Price (hereinafter defined).

Provided that Lessor shall have received all amounts payable hereunder on the last day of the Lease Term, and that no Event of Default then exists and is continuing under the Lease, Lessor shall convey all of its right, title and interest in and to the Equipment to Lessee on the last day of the Lease Term, on an "**AS-IS,**" "**WHERE-IS**" **BASIS WITHOUT REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED**, and without recourse to Lessor, except that the Equipment shall be free and clear of all liens created by Lessor. If Lessee intends to exercise the Purchase Option, Lessee shall give irrevocable written notice to Lessor (the "**Option Notice**") not more than 240 days, nor less than 180 days, prior to the expiration of the Lease Term. If Lessee fails to give such written notice to Lessor, it shall be conclusively presumed that Lessee has elected not to exercise the Purchase Option.

2. **Purchase Option Price.** If Lessee has elected to exercise the Purchase Option, then the "**Purchase Option Price**" shall be the Fair Market Value (hereinafter defined) of the Equipment. As soon as practicable following Lessor's receipt of the Option Notice, Lessor and Lessee shall agree on the Fair Market Value of the Equipment as of the end of the Lease Term. "**Fair Market Value**" of the Equipment shall be the amount determined on the basis of, and equal in value to, the amount which would be obtained in an arm's-length transaction between an informed and willing buyer-user (other than a buyer-user currently in possession or a used equipment or scrap dealer) and an informed and willing seller, under no compulsion to buy or sell, provided, however, that in such determination (i) costs of removal from the location of current use shall not be a deduction from such value, (ii) it shall be assumed (whether or not the same be true) that the Equipment has been maintained and would have been returned to Lessor in compliance with the requirements of the Lease, and (iii) if any item of Equipment has been attached to or installed on or in any other property leased or owned by Lessee, then the fair market value of such item of Equipment shall be determined on an installed basis, in place and in use.

If Lessor and Lessee fail to agree upon Fair Market Value on or before one hundred sixty (160) days prior to the expiration of the Lease Term, then such value shall be determined by the Appraisal Procedure (as set forth in Section 3 below), at Lessee's sole cost and expense.

3. **Appraisal Procedure.** On the earlier of 160 days prior to the end of the Lease Term or the date on which either party hereto shall have given written notice to the other requesting determination of the Fair Market Value of the Equipment by this Appraisal Procedure (the "**Appraisal Notice**"), the parties shall consult for the purpose of appointing a qualified American Society of Appraisers ("**ASA**") certified appraiser by mutual agreement. If no such appraiser is so appointed within ten (10) business days after the Appraisal Notice is given, each party shall appoint a certified ASA appraiser and the two appraisers shall attempt to

jointly agree on the Fair Market Value of the Equipment. If the two appraisers cannot so agree, then the two appraisers so appointed shall appoint a third certified ASA appraiser. If the two appraisers have been unable to agree on the Fair Market Value and on a third appraiser within thirty (30) days after the date of their appointment, Lessor may apply to the ASA or the American Arbitration Association to make such appointment, and both parties shall be bound by any such appointment. Any appraiser or appraisers appointed pursuant to this Appraisal Procedure shall be bound to determine the Fair Market Value of the Equipment within thirty (30) days after the appointment of the final appraiser to be employed pursuant to this Appraisal Procedure. If the parties shall have appointed a single appraiser, his or her determination of value shall be final, binding and conclusive on the parties. If the parties have appointed two appraisers, then their jointly agreed determination of value shall be final, binding and conclusive on the parties. If three appraisers shall be appointed, the values determined by the three appraisers shall be averaged, the appraisal having a value furthest from the average shall be discarded and the remaining two appraised values shall be averaged, and the average of the remaining two appraised values shall be final, binding and conclusive on the parties.

All capitalized terms used herein and not defined herein shall have the meanings set forth or referred to in the Lease Schedule. Except as specifically set forth herein, all of the terms and conditions of the Lease shall remain in full force and effect and are hereby ratified and affirmed. To the extent that the provisions of this Rider conflict with any provisions contained in the Lease, the provisions of this Rider shall control.

Dated as of: December 26, 2006

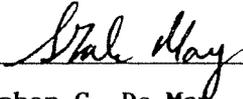
**BANC OF AMERICA LEASING & CAPITAL, LLC  
SUCCESSOR-BY-MERGER TO FLEET CAPITAL  
CORPORATION**

By: 

Name: JANET E. GANLEY

Title: ASSISTANT VICE PRESIDENT

**DUKE ENERGY KENTUCKY, INC.**

By: 

Name: Stephen G. De May

Title: Assistant Treasurer

**Bank of America**



**RENEWAL OPTION RIDER**

One Financial Plaza  
Providence, Rhode Island 02903-2448

This Renewal Option Rider (this "**Rider**") is attached to and made a part of that certain Lease Schedule No. 40307-11500-008 dated as of December 26, 2006 (the "**Lease Schedule**"), by and between the undersigned parties

1. **Renewal Option.** If no Event of Default (or event or condition which, with the passage of time or giving of notice, or both, would become such an Event of Default) shall have occurred and be continuing, and the Lease shall not have been earlier terminated, Lessee shall have the option to renew and extend the Lease Term (the "**Renewal Option**") for all, but not less than all, of the Equipment for not more than one consecutive twelve-month renewal term (, a "**Renewal Term**") following the end of the Lease Term, provided that Lessee shall have notified Lessor in writing (the "**Option Notice**") of Lessee's intention to exercise the Renewal Option not more than 240 days, nor less than 180 days, prior to the expiration of the Lease Term, which notice shall be irrevocable. If Lessee does not furnish the Option Notice to Lessor as provided herein, Lessee shall be irrevocably deemed to have elected not to exercise the Renewal Option, and the Lease shall terminate on the last day of the Lease Term.

During a Renewal Term, the Lease shall continue in full force and effect on the same terms, covenants and conditions set forth herein, provided, however, that the Rental Payments payable by Lessee on each Rental Payment Date during a Renewal Term shall be an amount equal to the Fair Market Rental Value (defined in Section 2 below).

2. **Fair Market Rental Value.** "**Fair Market Rental Value**" of the Equipment shall be the amount determined on the basis of, and equal in value to, the amount which would be obtained in an arm's-length transaction between an informed and willing lessee (other than a lessee currently in possession) and an informed and willing lessor, each under no compulsion to lease, provided, however, that in such determination (i) costs of removal from the location of current use shall not be a deduction from such value (ii) and it shall be assumed (whether or not the same be true) that the Equipment has been maintained and would have been returned to Lessor in compliance with the requirements of the Lease, and (iii) if any item of Equipment has been attached to or installed on or in any other property leased or owned by Lessee, then the fair market rental value of such item of Equipment shall be determined on an installed basis, in place and in use.

As soon as practicable following Lessor's receipt of the Option Notice, Lessor and Lessee shall agree on the Fair Market Rental Value of the Equipment as of the end of the Lease Term. If Lessor and Lessee fail to agree upon Fair Market Rental Value on or before one hundred sixty (160) days prior to the expiration of the Lease Term, then such value shall be determined by the Appraisal Procedure (as set forth in Section 3 below), at Lessee's sole cost and expense.

3. **Appraisal Procedure.** On the earlier of 160 days prior to the end of the Lease Term or the date on which either party hereto shall have given written notice to the other requesting determination of the Fair Market Rental Value of the Equipment by this Appraisal Procedure (the "**Appraisal Notice**"), the parties shall consult for the purpose of appointing a qualified American Society of Appraisers ("ASA") certified appraiser by mutual agreement. If no such appraiser is so appointed within ten (10) business days after the Appraisal Notice is given, each party shall appoint a certified ASA appraiser and the two appraisers shall attempt to jointly agree on the Fair Market Rental Value of the Equipment. If the two appraisers cannot so agree, then the two appraisers so appointed shall appoint a third certified ASA appraiser. If the two appraisers have been unable to agree on the Fair Market Rental Value and on a third appraiser within thirty (30) days after the date of their appointment, Lessor may apply to the ASA or the American Arbitration Association to make such appointment, and both parties shall be bound by any such appointment. Any appraiser or appraisers appointed pursuant to this Appraisal Procedure shall be bound to determine the Fair Market Rental Value of the Equipment within thirty (30) days after the appointment of the final appraiser to be employed pursuant to this Appraisal Procedure. If the parties shall have appointed a single appraiser, his or her determination of value shall be final, binding and conclusive on the parties. If the parties have appointed two appraisers, then their jointly agreed determination of value shall be final, binding and conclusive on the parties. If three appraisers shall be appointed, the values determined by the three appraisers shall be averaged, the appraisal having a value furthest from the average shall be discarded and the remaining two appraised values shall be averaged, and the average of the remaining two appraised values shall be final, binding and conclusive on the parties.

All capitalized terms used herein and not defined herein shall have the meanings set forth or referred to in the Lease Schedule. Except as specifically set forth herein, all of the terms and conditions of the Lease shall remain in full force and effect and are hereby ratified and affirmed. To the extent that the provisions of this Rider conflict with any provisions contained in the Lease, the provisions of this Rider shall control.

Dated as of: December 26, 2006

**BANC OF AMERICA LEASING & CAPITAL, LLC  
SUCCESSOR-BY-MERGER TO FLEET CAPITAL  
CORPORATION**

By: *Janet E. Ganley*

Name: JANET E. GANLEY

Title: ASSISTANT VICE PRESIDENT

**DUKE ENERGY KENTUCKY, INC.**

By: *Stephen G. DeMay*

Name: Stephen G. DeMay

Title: Assistant Treasurer



One Financial Plaza  
Providence, Rhode Island 02903-

STIPULATED LOSS VALUE SCHEDULE

This Stipulated Loss Value Schedule (this "**Schedule**") is attached to and made a part of that certain Lease Schedule No. 40307-11500-008 dated as of December 26, 2006 (the "**Lease Schedule**"), by and between the undersigned parties.

The following Stipulated Loss Values shall be used to calculate final liquidated damages under Section 13 of the Master Lease and payments owed by Lessee upon loss, destruction, theft or irreparable damage to the Equipment under Section 5 of the Master Lease. The Stipulated Loss Value with respect to any item of Equipment on any Rental Payment Date during the Lease Term shall be an amount equal to the sum of: (a) all Rental Payments and other amounts then due and owing to Lessor under the Lease, together with all accrued interest and late charges thereon, calculated through and including the date of payment; plus (b) the product of the Acquisition Cost of the such Equipment multiplied by the percentage set forth below as of such Rental Payment Date.

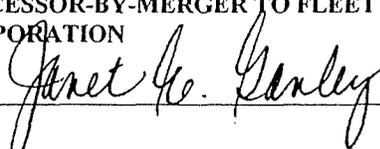
Rental Payment Date for Rental Payment Number	Percentage of Acquisition Cost	Rental Payment Date for Rental Payment Number	Percentage of Acquisition Cost
0	102.35	61	59.33
1	101.80	62	58.50
2	101.25	63	57.66
3	100.69	64	56.82
4	100.12	65	55.98
5	99.55	66	55.14
6	98.97	67	54.29
7	98.38	68	53.44
8	97.79	69	52.59
9	97.19	70	51.74
10	96.58	71	50.88
11	95.97	72	50.02
12	95.35	73	49.16
13	94.72	74	48.29
14	94.09	75	47.42
15	93.45	76	46.55
16	92.81	77	45.67
17	92.16	78	44.79
18	91.51	79	43.91
19	90.85	80	43.03
20	90.19	81	42.14
21	89.52	82	41.26
22	88.84	83	40.36
23	88.17	84	39.47
24	87.48	85	38.57
25	86.80	86	37.67
26	86.10	87	36.76
27	85.41	88	35.86
28	84.71	89	34.95
29	84.00	90	34.03
30	83.29	91	33.12
31	82.58	92	32.20
32	81.86	93	31.28
33	81.14	94	30.35
34	80.42	95	29.43

35	79.69	96	28.49
36	78.96	97	27.56
37	78.22	98	26.62
38	77.48	99	25.68
39	76.74	100	24.74
40	75.99	101	23.79
41	75.23	102	22.84
42	74.48	103	21.89
43	73.71	104	20.93
44	72.95	105	19.97
45	72.18	106	19.01
46	71.40	107	18.05
47	70.63	108	17.08
48	69.84	109	16.11
49	69.06	110	15.13
50	68.27	111	14.15
51	67.47	112	13.17
52	66.67	113	12.19
53	65.87	114	11.21
54	65.06	115	10.22
55	64.26	116	9.23
56	63.45	117	8.24
57	62.63	118	7.25
58	61.81	119	6.25
59	60.99	120	5.00
60	60.16		

All capitalized terms used herein and not defined herein shall have the meanings set forth or referred to in the Lease Schedule. Except as specifically set forth herein, all of the terms and conditions of the Lease shall remain in full force and effect and are hereby ratified and affirmed.

Dated as of: December 26, 2006

**BANC OF AMERICA LEASING & CAPITAL, LLC  
SUCCESSOR-BY-MERGER TO FLEET CAPITAL  
CORPORATION**

By: 

Name: JANET E. GANLEY

Title: ASSISTANT VICE PRESIDENT

**DUKE ENERGY KENTUCKY, INC.**

By: 

Name: Stephen G. De May

Title: Assistant Treasurer



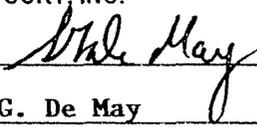
PAY PROCEEDS LETTER

One Financial Plaza  
Providence, Rhode Island 02903-2448

We, the undersigned, hereby authorize Banc of America Leasing & Capital, LLC, Successor-By-Merger to Fleet Capital Corporation to pay the following Payee(s) from the proceeds of financial accommodations provided to us by BALC as evidenced by that certain TRUE LEASE SCHEDULE No. 40307-11500-008 dated as of December 26, 2006 Make disbursements directly to said Payee(s) as follows:

PAYEE	Amount of Payment
DUKE ENERGY KENTUCKY, INC.	\$ 2,406,335.77
TOTAL:	\$ 2,406,335.77

Dated as of: DECEMBER 28, 2006

DUKE ENERGY KENTUCKY, INC.  
 By:   
 Name: Stephen G. De May  
 Title: Assistant Treasurer

10. Lessee agrees to promptly send to Assignee such financial statements and other notices as may be required to be sent to the lessor under the terms of the Master Lease, as assignee of Assignor's interest under the Designated Schedule, directly to Assignee at Assignee's address set forth hereinabove.

Accepted and agreed to on this 28 day of DECEMBER, 2006.

BANC OF AMERICA LEASING & CAPITAL, LLC  
(successor-by-merger to Fleet Capital Corporation)  
Assignor

DUKE ENERGY KENTUCKY, INC.  
Lessee

By: *Janet E. Ganley*  
Name: JANET E. GANLEY  
Title: ASSISTANT VICE PRESIDENT

By: *Steve May*  
Name: Stephen G. De May  
Title: Assistant Treasurer

WINMARK LIMITED FUNDING, LLC  
Assignee

By: *Rosemary Abbott*  
Name: Rosemary Abbott  
Title: Vice President